Merger of

SBC Communications Inc.

and

Ameritech Corporation

Description of the Transaction, Public Interest Showing And Related Demonstrations

Filed with the Federal Communications Commission
July 24, 1998

TABLE OF CONTENTS

ATTACHMENTS:[*]

- Description of the Transaction
- Agreement and Plan of Merger
- Categories of Ameritech's FCC Authorizations
- Description of the Applicants and Their Existing Businesses
- Affidavit of James S. Kahan *(SBC Senior Vice President describes the National-Local Strategy and the effects of the SBC/Telesis merger)*
- Affidavit of Martin A. Kaplan *(SBC Executive Vice President describes the expected synergies from the SBC/Ameritech merger)*
- Affidavit of Stanley T. Sigman *(President and CEO of SBC Wireless describes SBC's "Rochester experiment" and explains that SBC had no plans to use its wireless platform to provide local exchange service in Ameritech's service territory)*
- Affidavit of Stephen M. Carter *(President of SBC's Special Markets Group describes SBC's efforts to open its local markets to competition)*
- Affidavit of Dennis W. Carlton *(Economist evaluates the competitive consequences of the National-Local Strategy)*
- Affidavit of Richard Schmalensee and William Taylor *(Economists assess the likely effects of the SBC/Ameritech merger on competition)*
- Affidavit of Terry D. Appenzeller *(Ameritech Vice President – Open Market Strategy and Director – Local Competition describes Ameritech's efforts to open its local markets to competition)*

[*] For ease of reference, each of the attachments is separately labeled and they appear behind the narrative in this Exhibit, in the order listed above. All maps and tables referred to in this narrative appear at, respectively, the tabs labeled "Maps" and "Tables," which are at the end of the attachments.

- Affidavit of Robert Jason Weller *(Ameritech Director of Corporate Strategy discusses how the SBC/Ameritech merger advances Ameritech's strategic objectives and improves its ability to serve its customers)*

- Affidavit of Paul G. Osland *(Ameritech Director of Corporate Strategy explains the background and current status of Ameritech's test involving the resale of local service to residential cellular customers in St. Louis)*

- Affidavit of Francis X. Pampush *(Ameritech Director of Economic and Policy Studies describes the nature and extent of local service competition in Ameritech's region)*

- Affidavit of Wharton B. Rivers *(President of Ameritech Network Services discusses customer service quality objectives)*

- Affidavit of Richard J. Gilbert and Robert G. Harris *(Economists address the consumer effects of the SBC/Ameritech merger)*

- SBC Communications Inc. 1997 Audited Financial Statements

- Maps

    1. 30 Markets Targeted for SBC's National-Local Strategy
    2. SBC/Ameritech Local Service Area
    3. Competitive Networks – Little Rock, Arkansas
    4. Competitive Networks – San Francisco, California
    5. Competitive Networks – San Jose, California
    6. Competitive Networks – Petaluma/Napa, California
    7. Competitive Networks – Sacramento, California
    8. Competitive Networks – Stockton, California
    9. Competitive Networks – Fresno, California
    10. Competitive Networks – Los Angeles, California
    11. Competitive Networks – Anaheim, California
    12. Competitive Networks – San Diego, California
    13. Competitive Networks – Wichita, Kansas
    14. Competitive Networks – Kansas City, Kansas and Missouri
    15. Competitive Networks – St. Louis, Missouri
    16. Competitive Networks – Springfield, Missouri
    17. Competitive Networks – Oklahoma City, Oklahoma
    18. Competitive Networks – Tulsa, Oklahoma
    19. Competitive Networks – Austin, Texas
    20. Competitive Networks – Corpus Christi, Texas
    21. Competitive Networks – Dallas, Texas
    22. Competitive Networks – Fort Worth, Texas
    23. Competitive Networks – Houston, Texas
    24. Competitive Networks – San Antonio, Texas

DESCRIPTION OF TRANSACTION, PUBLIC INTEREST SHOWING AND RELATED DEMONSTRATIONS

I. INTRODUCTION

This application seeks the Commission's consent to the transfer of control of FCC authorizations held by subsidiaries of Ameritech Corporation ("Ameritech") to SBC Communications Inc. ("SBC"), which would enable SBC and Ameritech to consummate their proposed merger.

This proposed merger of two of America's leading telecommunications companies is both a logical and a necessary next step in the rapidly evolving telecommunications market. The Telecommunications Act of 1996 (the "1996 Act") has completely reshaped the telecommunications landscape and unleashed powerful forces that have irrevocably altered both the demand and the supply sides of the market, particularly in the major sector dominated by large and mid-size business customers. In response to these changes, SBC and Ameritech concluded they could no longer remain as regionally-based providers, but rather, had to pursue a new direction in order to meet the current and future needs of their customers, shareholders and employees. This merger, and the implementation of the bold new strategy that is made possible by the merger, will produce numerous synergies, result in unprecedented pro-competitive effects, and lead to

substantial benefits for the combined company's current and future customers, both inside and outside of the companies' traditional service areas. While SBC and Ameritech believe that there is an important and profitable role that will continue to be served by regionally-based and "niche" companies in the future, particularly by start-up companies and others that do not bear the costs and obligations of large-scale ILECs, they do not believe that such a course is in the best interests of their customers, shareholders and employees.

There are several fundamental market forces driving this merger. First, we are seeing an unprecedented move toward globalization of the marketplace. By marketplace, we mean both the telecommunications market and virtually all other types of markets. In recent months, there have been numerous announcements of mergers aimed at creating companies with global presence and capabilities, including Daimler Benz/Chrysler, Alcatel/DCS Communications, Northern Telecom/Bay Networks and Teleglobe/Excel. Each of these mergers involved the acquisition by a foreign company of a U.S. company, and each merger involved two companies seeking geographic expansion to provide them access to global markets. These mergers demonstrate the risks faced by incumbent telephone companies which confine themselves to their current markets or regions, as purchasing decisions regarding telecommunications services move from U.S. to foreign cities. In the case of each of these mergers, the acquired U.S. company was headquartered in a state served by either SBC or Ameritech. We need to be able to follow these customers and to have the facilities, employees and other capabilities to serve them everywhere they are located. While SBC and Ameritech individually do not currently have those assets, other companies and alliances – including those involving

AT&T/TCG/TCI/World Partners, Sprint/Deutsche Telekom/France Telecom and MCI/WorldCom/MFS/Brooks/UUNet – currently have them or are acquiring them.

Second, what is happening on a global scale is a mirror of what is happening in the U.S. itself. Just three or four years ago, local telephone companies in the U.S. were generally not focused on the need to be able to serve, in particular, their large and mid-size customers on a nationwide (not to mention global) basis. The local exchange monopolies then still existed and companies generally were confined to individual market segments. The 1996 Act has eliminated the historical franchises and removed the barriers to entry at all levels of the market, just as such barriers are now coming down overseas. Along with these changes, there has come a dramatic shift in the ability of certain carriers, particularly the large interexchange carriers and international companies, to respond to the demands of the major telecommunications customers who desire to obtain all or substantially all of their national and international telecommunications services from a single source. The nature of these service demands has also changed, as a result of the convergence of voice and data services.

These developments have naturally forced companies like SBC and Ameritech to completely rethink their businesses and to determine how to respond in a manner which best serves their customers, preserves value for their shareholders, and protects the interests of their many employees. SBC and Ameritech faced a choice. As our customers expand, both domestically and internationally, and begin to focus on securing all or substantially all of their telecommunications services from a single source, we could either stand pat and run the risk of losing our large and mid-size customers, who though small in number represent a very large portion of our revenues, or we could

expand and compete for the opportunity to follow and serve our customers wherever they might be. We have chosen to compete – as the 1996 Act seeks all companies to do. We have decided that we need to be everywhere our customers are, and be able to provide them with the latest technologies, features and common suites of services at all of their locations.

In analyzing how best to accomplish this objective, both companies have independently considered several options and strategies. Ultimately, as described in detail in this Exhibit and the accompanying affidavits of several officials of both SBC and Ameritech, we concluded that a new strategy was necessary – a strategy that would create a national and global company capable of meeting the full range of our customers' telecommunications needs, wherever those customers are located and whatever their needs may be. This comprehensive new strategy includes in-region, out-of-region and international elements.

In the in-region markets where SBC and Ameritech are the incumbent carriers, we must continue to provide our customers with the first-rate products and services they expect and demand. In that regard, it is particularly important for us to be able to compete to retain our large and mid-size customers – who are the most attractive customers for all competitors – in order to sustain our revenues and to secure the resources needed to maintain, enhance and expand our networks for all of our customers. To accomplish this, and to generate revenues needed to expand out-of-region, we must combine our companies. This combination is absolutely necessary to achieve the scale and scope efficiencies that the merger will produce, and that will enable us simultaneously to: (a) continue to bring to each of our in-region states the innovative

products and services our customers expect, the high quality jobs our employees desire, and our participation in the economic development of the communities we serve; (b) continue and complete the opening of our local markets to competition; and (c) effectively compete with the myriad highly-visible, technically-proficient and well-financed competitors who are in our markets today.

Out-of-region, the new strategy – called the "National-Local Strategy" – involves the essentially-simultaneous, facilities-based entry of the combined company into each of the Top 30 major U.S. markets outside of the area in which it would be the incumbent carrier. This element of the new strategy is designed to follow large and mid-size, in-region customers wherever they may be and to provide them with a full range of local, long distance, data and other services. At the same time, these customers will be the foundation or "anchor tenants" for the provision of service to small business and residential customers out-of-region, whom SBC and Ameritech are equally committed to serve. Indeed, in addition to installing over 60 switches and 2,900 fiber miles to serve large and mid-size customers, we plan to install approximately 80 more switches to serve small business and residential customers out-of-region. The strategy contemplates that the combined company will begin serving all of these various types of customers within the first year following consummation of the merger.

In addition to installing new facilities in these 30 out-of-region markets, SBC will also connect these markets and those in which the combined company is the incumbent, by leasing or otherwise acquiring transport from third parties. This will enable the new SBC to create a nationwide network capable of providing high quality service to all of its customers wherever they may be throughout the country.

The final component of this new strategy involves combining the existing international activities of both SBC and Ameritech and entering into 14 individual cities around the world – on a facilities basis – to complete the transformation of SBC and Ameritech from regional companies to a global competitor providing the full range of telecommunications services. With this transformation, the new SBC will be positioned to compete with other global competitors to serve large and mid-size national and international customers based in our territory and to follow these customers around the globe.

SBC and Ameritech believe that, absent such a widespread, simultaneous, facilities-based, out-of-region and global entry, they will not be able to compete effectively with the other major companies that can now provide a full range of telecommunications services to the large and mid-size business customers located within SBC's and Ameritech's in-region areas. Frankly, SBC and Ameritech have found that, if they remain confined to their regions and engage in only incremental out-of-region expansion, they will be able to compete less effectively for the large and mid-size business customers that are looking to have all (or substantially all) of their service needs met by a single carrier.

This merger will enable the combined company to accomplish these critical objectives, which could not be accomplished but for the merger. Similarly, but for the ability to accomplish these objectives and to implement this new strategy, this merger would not be taking place.

As described in detail in this Exhibit and its attachments, this merger will result in significant synergies, in the form of revenue enhancements and cost savings. It will

provide the volume of revenues necessary both to address the needs of the combined company's in-region customers and to launch the out-of-region and global elements of this new strategy. At the same time, it will greatly expand the number of in-region customers that the combined company can "follow" out-of-region, and it will spread the costs and risks of that expansion over a larger base of customers and shareholders. Equally important, the merger will provide the resources, particularly human resources, that are needed to implement this new strategy. That, in turn, significantly increases the likelihood of success of the entire undertaking.

Neither SBC nor Ameritech could or would undertake the implementation of such a significant out-of-region and global expansion as a stand-alone company, notwithstanding their belief that such an undertaking is essential and that it will produce demonstrable synergies and pro-competitive benefits. Neither company, standing alone, has the breadth of experienced management and skilled technical personnel that such an undertaking requires, and it is simply not possible or feasible for either company alone to rapidly secure such personnel. Moreover, neither company individually could bear the financial risk and earnings dilution that the implementation of this strategy entails. Together, however, they can and will implement it.

In addition to providing distinct benefits for the combined company's existing customers, shareholders and employees, this merger and the corresponding implementation of this new out-of-region and global strategy will jump start competition for business and residential customers throughout the country. Unquestionably, this is a distinct, merger-specific benefit. Of equal significance, however, SBC and Ameritech believe that the implementation of this new strategy will impel other carriers, including

the IXCs, other ILECs and CLECs, to compete vigorously in their own regions and in the new SBC's in-region areas – for both business and residential customers – in order to protect their customer base. This is a further, and equally clear, merger-specific benefit. These clearly pro-competitive effects, and the other synergies the merger will produce, have been recognized by several leading economists whose affidavits accompany this Exhibit.

Together, these initiatives – which neither SBC nor Ameritech could undertake but for the merger – will transform competition within the telecommunications market in the U.S. and be a significant catalyst to realizing many of the key policy objectives of the 1996 Act for the benefit of all U.S. customers, including those within and outside of the combined company's traditional regions. The merger will also enable the new company to be a major international competitor, further promoting U.S. participation in the increasingly global telecommunications marketplace. Thus, applying the standards the Commission has articulated in its review of similar mergers, this merger should be approved.

Under Sections 214 and 310 of the Communications Act of 1934, as amended, the Commission is to approve proposed license transfers under a public interest test. In its decision approving the merger of Bell Atlantic and NYNEX, the Commission declared that, in applying the public interest standard, it examines whether the transfer "is consistent with the policies of the Communications Act, including, among other things, the transfer's effect on Commission policies encouraging competition and the benefits

that would flow from the transfer."[1] This analysis is informed, but not constrained, by the antitrust laws. Id. The Commission may consider "trends within and needs of the industry, the factors that influenced Congress to enact specific provisions for a particular industry, and the complexity and rapidity of change in the industry."[2] The Commission's public interest authority "encompasses the goals of promoting competition and deregulation." BA/NYNEX ¶ 31.

In assessing whether a merger is in the public interest, the Commission balances the benefits of the merger, including both the increases in competition and the efficiencies to be derived from the transaction, against any potential reduction in competition. The framework for competitive analysis focuses on potential horizontal market power concerns. Id. ¶ 37.[3] If the pro-competitive benefits of the merger outweigh any harm to competition, the merger will be found to serve the public interest, convenience and necessity. Id. ¶¶ 48, 157.

As summarized above and discussed in detail in Section II, below, the merger of SBC and Ameritech will substantially advance the goals of the Telecommunications Act by enabling the most significant increase in local competition that the industry has seen. It will stimulate competition locally, nationally and globally, advance the competitiveness

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[1] In re Applications of NYNEX Corp. and Bell Atlantic Corp., Memorandum Opinion and Order, 12 FCC Rcd. 19985 at ¶ 32 (1997) ("BA/NYNEX").

[2] Id.; see also, e.g., FCC v. RCA Communications, Inc., 346 U.S. 86, 94-95, 98 (1953); United States v. FCC, 652 F.2d 72, 88 (D.C. Cir. 1980).

[3] "In the appropriate case," the Commission may examine whether the proposed merger has vertical effects that enhance market power. BA/NYNEX at ¶ 37. This merger does not present such a case. As in BA/NYNEX, the only arguable competitive issues here are horizontal in nature.

of the U.S. in international telecommunications markets and permit the more efficient delivery of a wider variety of services to existing and future consumers.

As explained in Section III, below, the merger will not reduce competition. First, it will have no adverse impact on actual competition after SBC and Ameritech dispose of their overlapping cellular interests. While SBC and Ameritech have competing cellular systems in Chicago and St. Louis, they will be disposing of their overlapping cellular interests. Second, the merger's impact on potential competition is conjectural and extremely limited. To the extent that any such impact would occur, however, it will be overwhelmed by the tremendous pro-competitive and other benefits of the merger described in Section II. In addition to producing a number of merger-specific synergies that will inevitably benefit telecommunications consumers, large and small, this transaction creates a firm with the scale and scope to compete on a global basis and which will inject new competition into scores of local markets across the country.

Thus, as demonstrated in Section IV, below – which applies the Commission's merger analysis and standards to this merger of SBC and Ameritech and shows that the benefits clearly outweigh any speculative adverse effects – this merger will serve and advance the public interest, convenience and necessity, and should be approved.

In Section V, below, we describe the other governmental reviews that are taking place with respect to this merger and, in Section VI, below, we request certain additional authorizations in connection with this merger.

Finally, the narrative contained in this Exhibit is supported by a large volume of additional information and analysis, which are contained in 19 accompanying attachments, including 12 affidavits and various other materials. Each of the tabs at

which these attachments appear has been separately labeled for the reader's convenience. All maps and tables that are referred to in the following sections of this Exhibit have been collected at, respectively, the tabs labeled "Maps" and "Tables" (which appear at the end of the attachments). The first four attachments consist of: a description of the proposed merger; a copy of the May 10, 1998 Agreement and Plan of Merger (the "Merger Agreement") between SBC and Ameritech (the "Applicants"); a list of the categories of authorizations covered by this application, and the other applications being submitted simultaneously to the Commission; and a description of the Applicants and their existing businesses. Those attachments are then followed by the affidavits of four SBC and five Ameritech officials, and several leading economists.

II. THIS MERGER WILL TRANSFORM SBC AND AMERITECH INTO A NATIONAL AND GLOBAL COMPANY, THEREBY PROMOTING COMPETITION AND THE U.S. ECONOMY

With this merger, SBC and Ameritech will achieve the critical mass necessary to execute an unprecedented plan to meet the changing demands of the telecommunications marketplace and to serve customers everywhere, without regard to regional constraints. As economist Dennis W. Carlton explains in his accompanying affidavit, the changes in the markets – driven by changes in technology and regulation, but most of all by the changing demands of customers – are promoting consolidation throughout the industry. Carlton Aff. ¶ 12. The merger of SBC and Ameritech is not simply consolidation for consolidation's sake. Indeed, the shared vision of SBC and Ameritech that motivates this merger is apparent in other mergers and alliances, such as WorldCom/MCI/MFS/Brooks/ UUNet, Deutsche Telekom/France Telecom/Sprint, the initial BT/MCI alliance,

AT&T/TCG/TCI/World Partners, and others. Id. Like these other mergers, the SBC/Ameritech merger is aimed at growth, increased competitiveness and the achievement of important efficiencies that will benefit consumers. The merger will create a company with the scope, scale, efficiency, drive and focus to compete effectively with other global, national, regional and niche competitors in all telecommunications markets both within and outside of the combined company's traditional territory.

In this Section II, we first describe the specifics of the National-Local Strategy which is a key element of this merger. We then describe the clear public benefits of the merger – increased competition throughout the nation; the creation of another U.S. global carrier that will enhance U.S. competitiveness in international markets; and the synergies that will enable the more efficient delivery of services and benefits to consumers. We then describe the forces that are reshaping the industry and the reasons – including scale, scope, resources and risk – that make this merger vital to the achievement of these unquestionably procompetitive goals.

A. Description of the Nationwide Out-of-Region (the "National-Local") Strategy

Upon completion of the merger, the new SBC will immediately begin to implement its aggressive National-Local Strategy to offer competitive local exchange, long distance and other telecommunications services to businesses and residences in the 30 largest U.S. local markets outside its incumbent service area. This National-Local Strategy, and its integral relationship to this merger, is described in the accompanying affidavit of SBC's Senior Vice President for Corporate Development, James S. Kahan.

The new SBC will begin offering these services in some markets immediately upon consummation of the merger and expects to have switches deployed in all 30 new markets within three years after consummation. Kahan Aff. ¶ 34. It will also expand its competitive foothold in numerous foreign markets. Id. ¶ 67. The overarching objective of the merger is to create a new SBC with a national footprint and global operations, a company able to follow and serve its customers everywhere. Id.

SBC has developed a multifaceted strategic plan for entering these new out-of-region markets. The strategy contains estimates of capital costs, personnel requirements and administrative expenses for each of three distinct customer and service segments (i.e., large/mid-size businesses, small business/residential customers and data). Id. ¶ 29. The strategy sets out realistic revenue and market share targets. Id. ¶¶ 43-44. The strategy recognizes that penetrating out-of-region markets, both nationally and internationally, will be expensive, take time and require substantial experienced managerial resources. Id. ¶¶ 75-85.

1. New Facilities-Based Entry Into 30 of the Top U.S. Markets

The list of service areas in which the new SBC will provide local exchange service includes those currently served by Bell Atlantic, BellSouth, US West and GTE, among other ILECs. These 30 areas include 70 million people – 31 percent of the total United States population, and 53 percent of the population outside of the in-region states that will be served by the new SBC. Kahan Aff. ¶ 34. Incumbent local phone companies in those markets currently serve 18 million business lines – 37 percent of the U.S. total and 51 percent of all business lines outside the new SBC's region. Id. Together with the

in-region markets that SBC, Ameritech and SNET already serve, the addition of these new markets will establish the new company as a facilities-based, local exchange carrier in 50 of the largest MSAs in the country. See Map 1 at the accompanying "Maps" attachment.

The new SBC strategy is to enter these new markets quickly. SBC believes that it is critical to do so in order to serve the needs of the large and mid-size business customers that will form the base or "anchor" for this entry and establish "first mover" advantages. Kahan Aff. ¶ 40; Carlton Aff. ¶ 22.

2. Serving Large and Mid-Size Businesses

There are three main components to the National-Local Strategy. First, the new SBC will target the uniquely demanding requirements of large and mid-size business customers. Kahan Aff. ¶ 30. Most of the top 1,000 companies demand telecommunications services that span much of the globe. Id.; see Carlton Aff. ¶ 12; Schmalensee/Taylor Aff. ¶ 14. A significant number prefer to buy turnkey service from a single supplier to capture economies of scope and scale, to ensure uniformity of service and functionality across the enterprise, and to provide a single point of accountability for keeping the network up and running. Kahan Aff. ¶ 30; Carlton Aff. ¶ 12; Schmalensee/Taylor Aff. ¶ 14. The new SBC will offer these customers integrated national and global packages of local, long distance, high-speed data and other services. Kahan Aff. ¶ 13.

The class of large and mid-size business customers generates a disproportionate share of revenues and profits. Id. In SWBT's territory, the 809 largest businesses

represent only 1 percent of SWBT's total business customers, but they account for 18 percent of SWBT's total business revenues. Id. For Ameritech, the top 1 percent of its business customers account for 11 percent of its company-wide revenues. Weller Aff. ¶ 21. The merger will give the new SBC a critical mass of these customers to follow into other markets. Kahan Aff. ¶ 51; Carlton Aff. ¶ 25. Of the Fortune 500 companies, 224 have headquarters in the combined SBC/Ameritech/SNET region. Kahan Aff. ¶ 49. To compete effectively for the business of these large potential customers, SBC must be able to cover 70-80 percent of the telecommunications services that these customers need. Id. ¶ 48; Carlton Aff. ¶16. By implementing the National-Local Strategy, the new SBC will have 70 percent coverage for 178 of these companies. Carlton Aff. ¶ 28.

The new SBC will rely heavily on its own facilities in entering these new markets. It will use a "smart build" strategy by which it will construct the facilities that are most needed, combine them with unbundled elements purchased from the incumbent LEC and, where appropriate, transport networks owned by third parties. Kahan Aff. ¶ 39. It will focus on constructing fiber backbones, installing switches, performing switch upgrades and installing multiplexing, access and office equipment to serve large and mid-size businesses. Id. ¶¶ 37-39.

To that end, the new SBC will also deploy over 60 new switches in the first stage of its plan just to serve large and mid-size businesses. Id. ¶ 37. Within three years of closing the proposed merger, SBC plans to have at least two switches within each of the 30 new markets. Id. ¶ 55. To serve these customers, the new SBC plans to deploy 2,900 route miles of its own fiber – ranging between 75 and 125 miles in each of the 30 out-of-region markets. Id. ¶ 38. All of this fiber will be deployed to provide local transport, not

intercity transport; the new SBC will rely on carriers such as Qwest, Williams and others for intercity trunks. Id. ¶ 39.

3. Serving Small Business and Residential Customers

The out-of-region switches and other facilities deployed initially to serve large and mid-size business customers will provide the foundation on which the new SBC will immediately launch the second component of the National-Local Strategy – to provide service to small business and residential customers. The new SBC is equally committed to serve these customers and will begin rolling out competitive small business and residential service simultaneously with its efforts to serve large and mid-size business customers. Id. ¶ 41.

The number of households in the 30 out-of-region markets is expected to grow to 30 million over the next 10 years and the number of small businesses is expected to reach 10 million. Id. ¶ 62. The average number of lines per household and small business will also rise; SBC projects an increase from 1.25 to 1.58 for household lines, and an increase from 3.0 to 4.13 for small business lines. Id. ¶ 62. SBC's ability to capture some of this growth is expected to add to the profitability of the overall strategy.

To that end, the new SBC will deploy an additional 80 switches in the 30 out-of-region markets to serve residential and small business customers. Id. ¶ 55. For connections to these customers, the new SBC will rely primarily on unbundled loops, together with some unbundled network elements. Id. ¶ 39. SBC's strategy anticipates that it will begin to secure small business and residential customers in the first year of the implementation of the strategy. Id. ¶ 14.

4. Provision of Data Services

Data services comprise a third component of the 30-market plan. This part of the plan is primarily directed at business customers, but also contemplates the availability of a nationwide Internet Protocol ("IP")-based network capable of providing advanced data and Internet access capabilities to all types of customers. Id. ¶ 32.

5. New Entry Into International Markets

The new SBC will also simultaneously extend its networks to follow its large customers into international markets. The company will deploy competitive facilities in numerous foreign cities. Id. ¶ 67. Together, SBC and Ameritech already have direct and indirect investments in Belgium, Denmark, France, Hungary, Israel, Norway, Switzerland, Chile, Mexico, South Korea, Taiwan, South Africa and elsewhere. See Table 15 at the "Tables" attachment. SBC has invested $3.1 billion in these ventures, and the foreign investments by Ameritech have a current value of approximately $8 billion. Kahan Aff. ¶ 66; Weller Aff. ¶ 16. The new SBC plans to deploy new facilities in 14 cities in Europe, South America and Asia within five years after closing, as described below. Kahan Aff. ¶ 67.

* * *

The new SBC will make more than $2 billion in capital investments to accomplish its strategy. Id. ¶ 57. Over 10 years, it will spend in excess of $23.5 billion on the operating expenses of this new competitive venture. Id. ¶ 58. Within 10 years, over 8,000 new SBC employees will be engaged full-time in out-of-region competition. Id. ¶ 59.

The new SBC expects to achieve meaningful penetration of each of the market segments it will enter. In each local out-of-region market, it expects to face competition from major interexchange carriers and other CLEC competitors. SBC anticipates winning between 5 and 10 percent of the addressable business and residential customers in these markets who desire the types of services and service packages the combined company intends to offer.

B. The Implementation of the National-Local Strategy Will Be a Major Catalyst for Realizing Key Goals of the 1996 Act

The SBC/Ameritech merger makes possible the first major effort by any telephone company to compete against incumbent local carriers in major markets across the nation for both business and residential customers. See Carlton Aff. ¶¶ 11, 36; Schmalensee/Taylor Aff. ¶ 16. The National-Local Strategy will thus catalyze local competition and fulfill a central goal of the 1996 Act. Id. ¶ 7; Carlton Aff. ¶¶ 10-11.

Prior to the passage of the 1996 Act, the BOCs and their affiliates were essentially confined to providing local exchange services in their own regions. The regulated monopoly franchise granted to local exchange carriers in most states severely limited any competition in local markets. Indeed, the divestiture decree was first interpreted to prohibit the BOCs from providing any services outside their own regions.[4] Even after

[4] See United States v. Western Elec. Co., 627 F. Supp. 1090, 1106 (D.D.C. 1986) ("it is clear for a number of reasons that the Operating Companies were intended to be limited to their own local areas in furnishing exchange telecommunications services"), judgment aff'd in part, appeal dismissed in part, 797 F.2d 1082 (D.C. Cir. 1986). Until 1986, the Department of Justice interpreted the divestiture decree to forbid Bell Companies from providing even strictly local service outside their regions. In its appeal, the Department argued that "stringent[ly]" confining the Bell Companies to their original territories was needed to protect against the "evils" that led to the antitrust case. Brief for the Appellee United States of America at 48, United States v. Western Elec. Co., No. 86-5118 (D.C. Cir. Apr. 18, 1986).

that restrictive interpretation was overturned, the continuing prohibition on the provision of long distance service barred the BOCs and their affiliates from offering attractive and profitable packages of local and long distance service. As a consequence, SBC and Ameritech focused their out-of-region efforts on other businesses. SBC built a highly successful, out-of-region wireless business.[5] While SBC made successful acquisitions and added value to the assets it acquired, it did not consider itself capable of competing on a national or global scale and took no steps to do so. Kahan Aff. ¶ 5.[6] Ameritech invested in security monitoring and cable television systems, and had no plans to compete on a national or global scale for telecommunications services. Weller Aff. ¶ 31.

The passage of the 1996 Act radically changed the competitive and regulatory environment and created new challenges and opportunities. That Act, the recent WTO Agreement and the evolution of the market in the two years since passage of the 1996 Act, now make conditions ripe for a competitive venture of the scope set out in the SBC/Ameritech merger plan – a plan to compete nationwide for both business and residential customers, and globally for business customers. The 1996 Act and the WTO Agreement open all local markets for entry and permit the new SBC to offer, for the first

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[5] See W. Vogel et al., Dillon, Read & Co., SBC Communications - Company Report, Investext Rpt. No. 1851859, at *2 (Feb. 3, 1997) (stating that "SBC's cellular operations posted the deepest subscriber penetration of the major U.S. wireless companies, with 10.8 percent at the end of 1996. . . . This reflects a 20.2 percent growth rate off of a very large base.").

[6] The 1996 Act prohibits BOCs and their affiliates from offering alarm monitoring services until February 2001. See 47 U.S.C. § 2759(a)(1). An exception was made for Ameritech, the only BOC to have begun offering alarm monitoring service before the Act. See id. § 275(a)(2).

time, a package of local, long distance and information services to out-of-region customers on a competitive basis with the ILECs and other CLECs.

At the same time, the basic economics of CLEC competition are being transformed by rapid technological advances, changing cost structures, the rise of data networks and soaring demand for new bandwidth and services. Carlton Aff. ¶ 12. The combination of lowered entry barriers and changing market conditions allow SBC/Ameritech and other carriers to provide customers what they want – the ability to obtain all their telecommunications needs from a single supplier, amid a competitive market of numerous providers offering such services.

SBC came to recognize that the changing demands of the marketplace required greater scale, scope and geographic diversity than the company had achieved, even after its merger with Pacific Telesis. Kahan Aff. ¶ 10. SBC analyzed various ways of achieving the needed critical mass and rejected both de novo entry and joint ventures as both insufficient and unworkable. Id. ¶ 11. Ameritech reached similar conclusions concerning its ability to strengthen its services and relationships through expanded scale. Weller Aff. ¶ 24. The merger between SBC and Ameritech, and the implementation of the new strategy made possible by the merger, are logical and necessary steps toward realization of the companies' objectives and the competitive and public interest benefits the merger will provide.

While incumbent LECs have borne the burdens of universal service obligations and the distortions of rate regulation, niche players have been among the first to prosper in the new environment. Carlton Aff. ¶ 39. They offer differentiated, specialty services, although only to a select, high-profit segment of the market. The 1996 Act's

interconnection, resale, unbundling and other requirements have significantly reduced entry barriers. Schmalensee/Taylor Aff. ¶¶ 37-41. Newcomers have no responsibility (or at least none comparable to that of incumbents) to offer universal service. Thus, the majority of the CLECs are focusing their competitive energies on the very largest business customers, while ignoring smaller businesses and less profitable residential customers.[7] See Carlton Aff. ¶ 36. But their competitive strategy is defined by how selectively they choose their customers and how few customers they actually serve. They leave the mass market, particularly the residential market, to others. Kahan Aff. ¶ 64.

This is partly because regulators traditionally have set business rates considerably above residential rates, even though the cost of providing business service is generally lower.[8] It is also due to the fact that existing CLECs (especially the IXCs) recognize that they can postpone regulatory approval of Bell Company entry into long distance markets and seek other regulatory concessions, by declining to compete for residential customers.

Major IXCs like AT&T/TCG/TCI and WorldCom/MCI/MFS/Brooks/UUNet, which dominate the residential long distance market, currently have the strongest disincentives to compete in local residential service markets because the potential profit from entering these markets is outweighed by the potential losses they would incur from

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[7] Even those CLECs that choose to pursue residential customers, like RCN, focus only on a small percentage of customers who purchase an above average level of vertical services. RCN, for example, typically bundles its local service with cable, internet access and long distance services to high-density, multiple dwelling units in urban markets. See RCN, Bundling (visited July 19, 1998) <http://www.rcn.com/services/bundling/index.html>.

[8] Residential rates are pegged some 30 to 80 percent lower than business rates everywhere in the country. See FCC Industry Analysis Division, Reference Book app. 2 (March 1997), available at <http://www.fcc.gov/Bureaus/Common_Carrier/Reports/FCC-State_Link/IAD/ref96.pdf>.

the type of competition that would occur if the Bell Companies were free to compete with them. Other CLECs know that their most profitable opportunity is to sell bundled services to business customers, and thus have almost equally strong incentives to postpone the day when their main rivals, the Bell Companies, can offer comparable packages. These CLECs' calculated strategies, most of which ignore residential markets, help them preserve a unique ability to bundle services – a vital competitive edge in business markets – while keeping SBC and Ameritech out of the long distance business.

The new SBC will jump-start local exchange competition. Carlton Aff. ¶¶ 10-11; Schmalensee/Taylor ¶ 7. Like other CLECs, the new SBC certainly intends to serve business customers. Indeed, these business customers will provide the base or "anchor tenants" from which SBC can expand to serve other customers. Kahan Aff. ¶ 40. Unlike most CLECs, however, the new SBC also intends to compete to serve residential customers, and it has no regulatory incentive not to do so. Id. ¶¶ 62-64. No other national provider has yet announced a comparable strategy to serve residential customers nationwide. See Table 18 at the accompanying "Tables" attachment.

In addition, the new SBC's strategy calls for the deployment of competitive facilities equal to or greater than all but a handful of carriers have deployed so far. See Table 19 at the "Tables" attachment. As noted above, the new SBC plans to deploy approximately 140 switches in the 30 new markets. WorldCom/MCI/MFS/ Brooks/UUNet, the largest CLEC, appears to have a comparable number of switches, although AT&T/TCG appears to have fewer CLEC switches.[9] It is too early to tell what

[9] See S. Oakley et al., Cowen & Company, WorldCom - Company Report, Investext Rpt. No. 2646885, at *4 (Feb. 23, 1998). See also WorldCom Press Release, WorldCom and

type of facilities Sprint's Integrated On-Demand Network ("ION") will ultimately involve, although initial announcements indicate that Sprint's plan is geared primarily towards the provision of high-speed data services, not basic local telephone service.[10]

SBC's new facilities-based entry will shake up competition throughout the nation. See Carlton Aff. ¶¶ 10-11. Indeed, no other company has yet made any comparable commitment to compete. No other major CLEC currently provides service in each of the 30 markets that the new SBC plans to enter, and the local service offerings of these other CLECs, large and small, are primarily aimed at business customers. See Table 17 at the "Tables" attachment. For example, AT&T (through TCG) currently serves 22 of those 30 markets, although it may enter others after its planned merger with TCI, and it has indicated that it will upgrade TCI's cable plant to serve as the platform for providing local phone service. Schmalensee/Taylor Aff. ¶ 51.[11] WorldCom/MCI/ MFS/Brooks/UUNet currently serves 23 of the 30 markets. Sprint does not currently

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MCI Announce $37 Billion Merger (Nov. 10, 1997), available at <http://www.wcom.com/about_worldcom/press_releases/archive/1997/111097.shtml>.

[10] See Sprint Press Release, Sprint Unveils Revolutionary Network (June 2, 1998), available at <http://www.sprint.com/sprint/press/releases/9806/9806020584.html> ("[A]pplications such as high-speed online interactive services, video calls and telecommuting will be readily accessible and less costly. . . ION allows businesses to expand dramatically their local and wide area networks and dynamically allocate bandwidth, thus paying only for what they use rather than having to purchase a set high-bandwidth capacity that often sits idle.").

[11] TCI has completed 30 percent of a $1.8-billion network upgrade to give all of TCI's cable customers 2-way capability by 2000 and AT&T's acquisition is expected to accelerate that process. AT&T-TCI Merge in $68 Billion Deal for Local Entry Using Cable, Communications Daily (June 25, 1998). According to AT&T's CEO, the acquisition should "begin[] to answer a big part of the question about how [AT&T] will provide local service to U.S. consumers." David Kalish, AT&T Agrees To Buy TCI for $32B, Associated Press, June 24, 1998.

serve any of them except as an incumbent, although its recent proposal to build an ION will ostensibly reach nationwide.[12]

Other CLECs provide service in select markets or on a regional basis.[13] See Carlton Aff. ¶¶ 36-37; Tables 17 and 18 at the "Tables" attachment. Several large incumbent LECs (e.g., BellSouth, US West and GTE) thus far appear to have opted to stay focused on their current geographic regions. Many other CLECs remain focused on niche services, including: RCN (multiple-dwelling units),[14] Intermedia (government end users),[15] NEXTLINK (small and medium-sized businesses),[16] WinStar (long distance and Internet access),[17] Williams (video transport),[18] Teligent (microwave access for small

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[12] See Sprint Press Release, Sprint Unveils Revolutionary Network (June 2, 1998), available at <http://www.sprint.com/sprint/press/releases/9806/9806020584.html> (stating that "[With ION, Sprint's] reach will be extended through metropolitan broadband networks (BMAN) available in 36 major markets nationwide in 1998 and in a total of 60 major markets in 1999. . . . For smaller business locations, telecommuters, small/home office users and consumers who may not have access to BMANs, ION supports a myriad of the emerging broadband access services, such as DSL.").

[13] Intermedia, the largest independent CLEC, provides service in 12 of the 30 markets. New Paradigm Resources Group and Connecticut Research, 1998 CLEC Report: Annual Report on Local Telecommunications Competition, Carrier Profile: Intermedia at 9 (9th ed. 1998). ICG, the second largest independent CLEC serves 8 of the 30 markets. Id. at Carrier Profile: ICG at 16-17. Time Warner and Winstar each serve 9 markets, and Hyperion and NEXTLINK both serve 4. Id. at Carrier Profiles: Time Warner at 8, WinStar at 9, Hyperion at 16-17, NEXTLINK at 14.

[14] See RCN News Release, RCN-Pepco "Starpower" Joint Venture Launches Competitive Local Phone Service in District of Columbia (Apr. 2, 1998), available at <http://www.rcn.com/investor/press/04-98/04-02-98.html>.

[15] See New Paradigm Resources Group and Connecticut Research, 1998 CLEC Report: Annual Report on Local Telecommunications Competition, Carrier Profile: Intermedia at 2 (9th ed. 1998).

[16] See New Paradigm Resources Group and Connecticut Research, 1998 CLEC Report: Annual Report on Local Telecommunications Competition, Carrier Profile: NEXTLINK at 2 (9th ed. 1998).

[17] See WinStar, The Business (visited July 16, 1998) <http://www.winstar.com/index The Buiss.htm>.

and medium-sized businesses),[19] and Qwest (high-speed data services for other carriers).[20] In contrast to these others, the new SBC will inject broad and deep competition into all of the Top 50 markets. Carlton Aff. ¶¶ 8-9; Gilbert/Harris Aff. ¶ 26.

Not only will consumers benefit directly from the competition the new SBC will provide in its new markets, but this entry should stimulate competitive responses by other carriers. Kahan Aff. ¶ 86; Carlton Aff. ¶10; Gilbert/Harris Aff. ¶ 28. Encouraging Bell Companies and other ILECs to compete against each other is certain also to impel AT&T/TCG/TCI, MCI/WorldCom/MFS/Brooks/UUNet, and other CLECs to compete on similar terms for the same customers. Kahan Aff. ¶ 87. SBC's National-Local Strategy will put the company in direct competition with all major IXCs, incumbent LECs and other CLECs outside its region. This should also cause these competitors and others to compete within SBC's region, in order to maintain their large business customers, thereby further increasing local competition throughout the country. Id. ¶ 90; Carlton Aff. ¶ 10; Schmalensee/Taylor Aff. ¶ 16; Gilbert/Harris Aff. ¶ 28. Customers will buy packages of services if they can, and as soon as one provider begins offering fully bundled local and long distance service in any major market, other providers will have to follow. Kahan Aff. ¶ 86. They will have no choice but to match the competition if they wish both to protect their customer base and grow their business. Id. ¶ 86;

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[18] See Williams Communications, Network Services (visited July 16, 1998) <http://www.wilcom.com/2networkservices.html>.

[19] See Conversation: Teligent Inc.'s Alex J. Mandl, Wash. Post, Feb. 2, 1998, at F10.

[20] See Qwest, Qwest Vision (visited July 16, 1998) <http://www.qwest.com/Vision.html>.

Schmalensee/Taylor Aff. ¶ 7; Gilbert/Harris Aff. ¶ 28. Thus, consumers will be the direct beneficiaries of both SBC's entry and of other providers' responses to that entry.

C. The Merger Will Create a Major New U.S. Participant in the Global Telecommunications Marketplace

1. SBC and Ameritech Currently Hold Substantial Complementary Investments in International Telecommunications Markets

The combined resources of the new SBC will enable it to continue to expand SBC's and Ameritech's international operations, make improvements in its existing international telecommunication business, and actively compete in international telecommunications markets. Kahan Aff. ¶¶ 65-68. The Commission has recognized that "[a]n efficient and cost-effective global telecommunications marketplace is essential to an emerging information economy,"[21] and both Ameritech and SBC are committed to playing a key role together in that market. This strategy is unparalleled because of its broad geographic scope, scale of operations and depth of services and customers.

SBC and Ameritech each have already made substantial investments in foreign markets, have experienced personnel overseas and understand the requirements to operate successfully in these markets. See Table 15 at the "Tables" attachment; Kahan Aff. ¶ 66; Weller Aff. ¶ 16. Moreover, their investments represent a variety of complementary strategies – such as wireline and wireless, developed and developing countries, and controlling positions and portfolio investments.

[21] See In re Rules and Policies on Foreign Participation in the U.S. Telecommunications Market, Order, 13 FCC Rcd. 6219, ¶ 1 (1997) ("Foreign Participation Order").

In 1990, SBC and Ameritech were among the first U.S. companies to invest in foreign local exchange companies, buying into incumbent carriers in Mexico and New Zealand, respectively.[22] SBC has invested $3.1 billion in telecommunications companies in Mexico, Europe, Asia, Africa and South America. Kahan Aff. ¶ 66. Through its investments in Telmex and Telkom SA, SBC is the largest U.S. telecommunications investor in Mexico and South Africa, respectively. Ameritech has interests in Europe valued at approximately $8 billion. Weller Aff. ¶ 16. Ameritech's investments in European markets make it the largest U.S. telecommunications investor on that continent. Id.

2. The New SBC Will Expand Its International Presence

The merger of SBC and Ameritech includes a plan by the combined company to make further investments in Europe, Asia and South America in order to follow its customers to those areas, and to dramatically accelerate its level of international activity through competitive entry into new markets. Kahan Aff. ¶ 67. Specifically, the new SBC plans to enter 14 major foreign local markets once the merger with Ameritech is completed.

SBC's plan with respect to these 14 cities calls for:

- one switch in each city by 2001, ultimately expanding to 27 switches;
- installation of 1,400 km of fiber within two years, expanding to more than 2,000 km of new fiber; and

[22] SBC holds a 9.6 percent interest in Telmex, the national telephone company operating in Mexico, and has held as much as an 11 percent interest in Telmex. In 1990, Ameritech and Bell Atlantic purchased a 100 percent share (Ameritech 50 percent; Bell Atlantic 50 percent) in Telecom Corporation of New Zealand ("TCNZ") for $2.5 billion dollars. TCNZ provides local, long distance and international telecommunications services as well as cellular and satellite television services.

- 3,500 new employees.

Kahan Aff. ¶ 67.

3. U.S. Businesses and Consumers Will Receive Significant and Increasing Benefits From International Activities of the Combined SBC/Ameritech

U.S.-based companies that do business overseas will be the direct beneficiaries of foreign investments by the new SBC as a result of its enhanced ability to provide additional services to large U.S. companies conducting business in foreign countries. The new SBC will also be able to provide cost-effective services to smaller businesses. Schmalensee/Taylor Aff. ¶ 23. This will allow these firms to limit their cost of doing business. Id.

Foreign investments by U.S. telecommunications companies make it easier for U.S. companies to reach their foreign facilities, as well as their customers and suppliers in these countries, with many if not all of the same features and functions that are available to these companies in the U.S. These investments also permit the U.S. telecommunications companies to expand the number of customers and suppliers they serve and increase the quality (e.g., reliability, availability of advanced services, technical and customer support, etc.) of the communications services that are delivered.

By way of example, in each of Hungary, Belgium and Mexico, the recent investments by Ameritech and SBC have served to increase both the availability of communications services and the quality of service provided to customers. Prior to Ameritech's 1993 investment in MATÁV, applicants waited an average of 15 years for a phone; today there is no backlog. Weller Aff. ¶ 18. Between 1996 and 1998, with assistance from Ameritech personnel, Belgacom – the largest telephone company in

Belgium, in which Ameritech has a 17% investment – improved both customer care (e.g., an increase of over 60% in the number of customer calls answered, and customer satisfaction more than doubled) and operator service (e.g., speed of answer improved by 70%, customer handling time decreased 18% and calls handled per month increased by over 50%). Id. Since 1990, when SBC made its investment in Telmex, that company has invested $12 billion in modernizing and expanding its local and long distance network. Telmex now has a 100% digital long distance network, and the local network is 90% digital. Trouble reports have fallen to 3.7 per 100 lines per month from 13.5 in 1990. Clearly, the reliability and availability of these networks has made it easier for U.S. companies to do business in these countries.

The Commission has recognized that "significant consumer and economic benefits" generally will result from opening foreign markets to competition.[23] One such direct benefit to "consumers and carriers in all countries, including businesses and others who rely on global telecommunications services" is lower international accounting rates.[24] In 1996, the U.S. settlement deficit totaled $5.4 billion, double what it was in l990.[25] Facilities-based competition of the kind the new SBC intends to provide on a

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[23] See In re Rules and Policies on Foreign Participation in the U.S. Telecommunications Market, Report and Order and Order on Reconsideration, 1997 WL 735476, ¶ 12 (1997) (addressing global competition resulting from implementation of the WTO Basic Telecom Agreement).

[24] See In re International Settlement Rates, Report and Order, 12 FCC Rcd. 19806, ¶ 7 (1997). See also id. at ¶ 10 ("At a minimum, the increased competition in the global IMTS market that will result from this [WTO] trade agreement will exert downward pressure on accounting rates in competitive markets as new entrants compete to terminate foreign traffic.").

[25] Id. at ¶ 13.

global basis will, over time, push settlement rates down, as well as lower the cost of doing business in foreign countries.[26]

Ameritech and SBC understand the need to position their international investments for the long term. This means driving down historical subsidies and repricing historically subsidized services. For U.S.-based companies, this means lower international termination rates and, therefore, lower overall telephone bills and reduced barriers to conducting export businesses. Weller Aff. ¶ 22. Two of three European companies in which Ameritech had invested today are already within the FCC's target pricing guidelines for international settlement rates, and the third – MATÁV – has among the lowest average rates of Central European telephone companies. Id.

The merger of SBC and Ameritech will also serve the public interest by facilitating international trade and improving U.S. competitiveness.[27] As countries

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[26] See In re Regulation of International Accounting Rates, Fourth Report and Order, 11 FCC Rcd. 20063, ¶ 16 (1996) ("The introduction of effective facilities-based competition in some foreign markets creates the option of an international carrier acquiring control of both the international transport circuit and the international gateway switching facility. That carrier could then terminate an international call at domestic interconnection rates, a potentially far more efficient arrangement than the current settlements process.").

[27] President Clinton recently remarked that: "The test of all these mergers ought to be this: Does it allow them to become more globally competitive in ways that don't unfairly raise prices or cut the quality of service to consumers in America?" Jackie Calmes, Administration to Study Business Concentration, Wall St. J., May 13, 1998, at A2 (quoting an interview by Al Hunt of The Wall Street Journal and CNBC with President Bill Clinton in Washington, D.C. (May 4, 1998)). See also Prepared Statement of Kelly R. Welsh, Executive Vice President and General Counsel, Ameritech Corporation, To the House Committee on the Judiciary (June 24, 1998), available at 1998 WL 347389; Prepared Testimony of Edward E. Whitacre, Jr., Chairman and Chief Executive Officer SBC Communications Inc., Before the Antitrust, Business Rights and Competition Subcommittee, Senate Judiciary Committee (May 19, 1998), available at 1998 WL 257699. See also 1997 Trade Policy Agenda under 1996 Annual Report of the President of the United States on Trade Agreement Program, March 1997, at 1, 5 ("Trade is more important than ever to the U.S. economy . . . President Clinton has designed a fair trade policy that seeks to take advantage of the increasingly global economy" in a manner that benefits U.S. business and families.).

develop economically and socially, they become more stable, which in turn makes them attractive markets for international investments – not only in the telecommunications sector, but also in other lines of business as well.[28] In addition, as a country's economy grows, the demand for U.S. exports will grow, especially where U.S. businesses have established a presence.

SBC's and Ameritech's investments and influence in foreign markets have opened, and will continue to open, these markets to other U.S. businesses, particularly those businesses supplying the many products and services that are required to develop a modern telecommunications infrastructure. Weller Aff. ¶ 23.[29] In Hungary, for example, U.S. vendors have sold such services as: data warehousing systems (HP), testing equipment (Teradyne), automated directory assistance platforms (IBM), network monitoring systems (Digital), wireless local loop technology (Motorola), workforce management software (Silicon Graphics) and fault tolerant computers (Tandem/Compaq). Sales by these companies have been estimated at over $200 million over the life of the collective contracts. Id.

As the combined SBC/Ameritech expands its foreign operations into newly liberalized countries, in ways made possible through this merger, it will continue its past

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[28] Robert J. Saunders et al., Telecommunications & Economic Development 18, 199-251 (2d ed. 1994) (discussing results of various surveys conducted on telephone communications in developing countries).

[29] The Commission has recently initiated a rulemaking to, among other things, implement the Mutual Recognition Agreement ("MRA") between the United States and the European Community ("EC"). When the MRA is fully implemented, it will be easier for U.S. manufacturers to market their products in Europe without obtaining additional equipment authorizations. See In re 1998 Biennial Review, Notice of Proposed Rulemaking, GEN Dkt. No. 98-68, FCC 98-92, 1998 WL 244623, ¶ 1 (May 14, 1998).

practice of using the best firms to supply goods and services, many of which are U.S.-based suppliers. This practice serves not only the interests of U.S. companies (small and large), but will contribute to the overriding U.S. goal of reducing the U.S. trade deficit. In addition, by exporting world-class purchasing economies, the new SBC will be able to reduce affiliates' costs of acquiring telecommunications equipment, thereby expanding the scope of investments and new infrastructure/capabilities available in these foreign countries. This investment, as discussed above, will drive improved cost structures and greater availability and quality of telecommunications services in these countries.

4. Significant Benefits Result from U.S. Investments in Foreign Telecommunications Markets

Significant social and economic benefits in the foreign country result from the types of international investments made by SBC and Ameritech. It is clearly in the public interest to support long term economic development in developing countries.[30] And, in all countries, universal access to high-quality telecommunications services facilitates social and economic development. The end result is a better quality of life for its citizens since, by improving its telecommunications infrastructure, the country is better able, among other things to: (i) unify its economy (by facilitating better communications and commerce in remote areas); (ii) participate in the global economy; (iii) increase

[30] There is a rich literature demonstrating the linkage between telecommunications investments and economic development and how such investments benefit both the U.S. and international markets. See, e.g., Robert Z. Lawrence and Robert E. Litan, Brookings Policy Brief No. 24, Globaphobia: The Wrong Debate Over Trade Policy 6 <http://www.brook.edu/es1policy/polbrf24.htm>; Robert J. Saunders et al., Telecommunications & Economic Development 18, 199-251 (2d ed. 1994).

efficiencies in economic production and distribution; and (iv) improve emergency and other services.

There are a number of other foreign-country economic benefits that flow from investments in telecommunications infrastructure. For example, as the telephone company becomes more operationally efficient and profitable, the government receives more revenues, as a shareholder, and more taxes – both directly from the telephone company itself and indirectly from the employees and businesses that supply goods and services to the telephone company. For example, when Ameritech held a substantial strategic investment in Telecom New Zealand, the company transitioned from being a subsidized government-owned company to the largest taxpayer in New Zealand.[31] Moreover, the telephone company often provides liquidity and both reduces volatility and becomes the leading market-capitalized firm in the country's stock market, as in Brazil, Canada, Denmark, France, Greece, Hungary, Japan, New Zealand, Spain and Singapore.[32] Since Ameritech invested in MATÁV, it has become the first central European telephony company to be listed on the New York Stock Exchange and it has the highest market capitalization of any Hungarian corporation.[33]

Ameritech and SBC have demonstrated their commitment to providing investment capital, personnel and expertise in foreign markets. They have helped build out the public networks in Hungary, Mexico and South Africa, which has resulted in

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[31] Telecom New Zealand paid $219 million in U.S. dollars in taxes in respect of the fiscal year ending March 31, 1998. See Telecom New Zealand 1998 Annual Report at 39.

[32] Business Week, July 13, 1998, at 52-91; see also Forbes, July 27, 1998, at 120-154.

[33] Business Wire, Inc., Nov. 19, 1997, <http://www.businesswire.com>.

improvement in the quality of life in those countries. For example, in South Africa, through its investment in Telkom SA, SBC has committed to an aggressive universal service and build-out obligation to increase the availability of telephone service to all of South Africa, with a particular emphasis on rural and other underdeveloped portions of that country. SBC is actively working to add 2.5 million access lines in South Africa within five years. In that country, where only 10 percent of the nonwhite households — which comprise 87 percent of the population — have telephone service, SBC's commitment to constructing 2.5 million access lines in five years offers tremendous opportunities. In addition, SBC is working to align the employee workforce more closely with South Africa's demographics. See Attachment G to Kahan Aff. In Hungary, where Ameritech has invested in MATÁV - Hungary's largest telephone company - 900,000 new lines have been added in the last 4-5 years, a 60 percent increase.

5. The Telecommunications Sector Is a Strategic Asset Requiring Experienced, Well-Capitalized U.S. Companies To Compete Effectively

Telecommunications has long been recognized as a strategic asset, essential to U.S. national and international interests. Few nations will produce even a single global, facilities-based carrier.[34]

Other U.S. companies have entered these markets through means other than direct investments or facilities-based entry. Schmalensee/Taylor Aff. ¶ 22. For example, AT&T and Sprint are both already members of global alliances – WorldPartners and

[34] See In re the Merger of MCI Communications Corp. and British Telecomm. plc, Memorandum Opinion and Order, 12 FCC Rcd. 15351, ¶¶ 57, 91, 130 (1997).

Global One, respectively.[35] Global One teams Sprint up with incumbent monopoly carriers in more than 65 countries.[36] On the other hand, the combined WorldCom/MCI has facilities in 21 foreign cities and clearly plans to compete worldwide.[37] The new SBC will have the resources and commitment to project U.S. telecommunications services and marketing expertise throughout the world. Weller Aff. ¶ 12.

Around the globe, "liberalization and the introduction of facilities-based competition" is "accelerating a shift from single national champion carriers, whether government- or privately-owned, to multiple carriers and more diverse markets."[38] By the year 2000, open telecommunications markets will be the norm in countries that

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[35] One other global alliance (Unisource) unites incumbents in the Netherlands, Sweden, and Switzerland. A fourth "alliance," Cable & Wireless, has ownership interests in over 25 foreign local incumbents and at least 10 other foreign long distance and wireless carriers. Virtually every major incumbent foreign carrier is now a member of one of these alliances. "Such alliances are truly global when they are aimed at the provision of global products (i., e., seamless provisioning of worldwide services) through single points of contact with global reach (i.e., multinational carrier groups) to global markets (i.e., international requirements of multinational customers)." See FCC International Bureau, Global Communications Alliances 2 (Feb. 1996), available at <http://www.fcc.gov/ib>.

[36] See Global One, Key Facts About Global One (visited July 15, 1998) <http://www.globalone.net/en/press/facts.html>.

[37] See WorldCom, Building the Right Networks (visited July 16, 1998) <http://www.wcom.com/investor_relations/annual_reports/1997/networks/europe.html>. WorldCom/MCI will have offices in 65 countries. See WorldCom Press Release, WorldCom and MCI Announce $37 Billion Merger (Nov. 10, 1997), available at <http://www.wcom.com/about_worldcom/ press_releases/archive/1997/111097.shtml>.

[38] FCC International Bureau, Global Communication Alliances 1 (Feb. 1996), available at <http://www.fcc.gov/ib>. See also K. Wallace, Lehman Brothers, Inc., Controlled Chaos Of Telecommunications -Industry Report, Investext Rpt. No. 3312108 at *1 (Dec. 22, 1997) (finding that "the deregulatory process is providing new, potentially advantageous investment opportunities.").

account for over 80 percent of the world's population and economic activity.[39] See Table 20 in the "Tables" attachment.

Neither Ameritech nor SBC individually, however, can now effectively compete for large business customers with the larger European and Japanese telecommunications companies in their home countries. Weller Aff. ¶ 13; Kahan Aff. ¶ 68. Although Ameritech's estimated market value investment of approximately $8 billion in European telecommunications investments exceeds that of any other U.S. telecommunications company, that investment, even when combined with SBC's international investments, still falls short when compared to the resources available to British Telecom, Deutsche Telekom, France Telecom and Nippon Telegraph & Telephone, either directly or through their partnerships.[40] Moreover, the capital required to compete for a significant facilities-based stake in the in-country service market in the U.K., Germany, France or Japan is considerable. Thus, it will require the combined resources (financial and personnel) of a merged SBC/Ameritech to compete most effectively in the global telecommunications market on par with such key foreign carriers and the various alliances. Weller Aff. ¶ 12.

These considerable investments are commensurate with the enormous scope of the competitive challenge. The global telecommunications market generated an

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[39] On February 15, 1997, 69 countries, including the United States, concluded an agreement to open their markets for all basic telecommunications services to competition from foreign-owned companies. The agreement, negotiated under the auspices of the World Trade Organization ("WTO"), "covers 95% of the global market for basic telecommunications services." In re Rules and Policies on Foreign Participation in U.S. Telecommunications Market, Order and Notice of Proposed Rulemaking, 12 FCC Rcd. 7847, ¶ 1 (1997). See also WTO Press Release, Ruggiero Congratulates Governments on Landmark Telecommunications Agreement (Feb. 17, 1997), available at <http://www.wto.org/wto/press/press67.htm>.

[40] See subsection E, below.

estimated $700 billion in revenues in 1996,[41] and it has been growing 20 percent per year.[42] International traffic has been growing faster still, at a rate of nearly 30 per cent in the past two years.[43] As the Commission's International Bureau has noted, multinational businesses alone accounted for "several billion dollars" in international traffic in 1996,[44] and other analysts see that segment growing to $25 billion by the year 2000. Over three-quarters of the 1,000 largest multinational corporations are headquartered in the five countries – the U.S., Japan, France, Germany, and the U.K. – that generate over half of international voice traffic.

The combined SBC/Ameritech will be well positioned to follow large multinational customers through its new geographical reach. Serving customers like these is "the most important – and most difficult – challenge ahead for the U.S. national carriers."[45] Smaller businesses with fewer international needs, however, will also benefit

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[41] See International Telecommunication Union, World Telecommunication Development Report 1996/97 7 (1997). Telephone service revenue accounted for an estimated $472 billion of this revenue; within this category, an estimated $69 billion was generated by international telephone service. Mobile services generated an estimated $118 billion. Other services, including leased circuits, data communications, telex, and telegraph, generated an estimated $80 billion. Id.

[42] E.M. Greenberg, et al., Morgan Stanley, Dean Witter, Global Telecommunications Monthly-Industry Report, Investext Rpt. No. 2640322, at *23 (December 2, 1997). See generally M. Weaver, et al., Duff & Phelps Credit Rating Co., AT&T Corp. – Company Report, Investext Rpt. No. 2577806, at *6 (Aug. 13, 1997) (asserting that "[t]he global market will grow rapidly as new markets open and worldwide business expands [and] [t]he demand for global telecommunications service is growing . . .").

[43] See Telegeography 1997/98 figure 1 (1997) (noting a nearly 30 percent growth rate based on projected figure for 1997).

[44] See FCC International Bureau, Global Communications Alliances 5 (Feb. 1996), available at <http://www.fcc.gov/ib>.

[45] See Mary Thyfault, Big Four Carriers Square Off, Information Week, May 5, 1997, at 45 (noting that the "Big Four" are AT&T, MCI, Sprint, and WorldCom and that "about l0 percent of U.S. companies switch carriers each year."). The key to serving these companies is the ability to offer substantially all services everywhere.

from the new SBC's international reach. As a facilities-based service provider in both the U.S. and in international markets, the new SBC will be in a position to provide an array of services to meet these smaller companies' needs.

In summary, this merger will allow the new SBC to take advantage of economies of scope and scale to compete effectively in the global telecommunications market, as a major, facilities-based, U.S. flagship carrier. That will provide significant benefits for U.S. companies, consumers and telecommunications suppliers. Weller Aff. ¶¶ 19-23. The merger occurs during a watershed period, as markets are opening and the information/telecommunications marketplace is fragmented. The same public interest and policy considerations underlying the Commission's initiatives to facilitate the entry of U.S. long distance carriers into the domestic local exchange market are present in the international market and should be applied here. Large U.S. telecommunications carriers should be encouraged to expand internationally. This merger will allow the Commission to achieve its "objective of promoting competition in the U.S. market, and of achieving a more competitive global market for all basic telecommunications."[46]

D. The Merger Will Produce Substantial Efficiencies and Customer Benefits

The SBC/Ameritech merger will enable the combined company more effectively to serve its customers and will produce significant cost savings and enhanced revenues for the combined company, due to synergies in new product development and marketing,

[46] See In re Rules and Policies on Foreign Participation Order in the U.S. Telecommunications Market, Report and Order and Order on Reconsideration, IB Dkt. No. 97-142, FCC 97-398, 1997 WL 735476, ¶¶ 3, 5 (Nov. 26, 1997) (the Foreign Participation Order "represents the culmination of efforts taken by the Commission to promote competition in the global market for telecommunications services").

purchasing discounts and the elimination of duplication. These efficiencies, which are described in the accompanying Affidavits of Martin A. Kaplan of SBC and R. Jason Weller of Ameritech, as well as the accompanying Affidavits of economists Richard Gilbert, Robert Harris, Richard Schmalensee and William Taylor, will benefit existing and new residential and business customers both within and outside of the combined company's territory. The resulting increased cash flow will make the combined company a more effective competitor, enhance and expand services to existing customers, and help support the financial requirements for the new SBC's in-region, out-of-region and global plans. Kaplan Aff. ¶ 32. SBC estimates that, by 2003, the merger will enable it to realize annual expense savings of $1.17 billion, reductions in capital costs of $260 million and revenue increases from the sale of new and existing services totaling $778 million. Id. ¶¶ 7, 17. An additional $300 million is expected from reduced costs and enhanced revenues in the combined company's long distance operations after it is permitted to provide in-region long distance services. Id. ¶ 26.

This additional $2.5 billion in expense savings and revenue increases will not only benefit the combined company's existing network and customer base, but also allow for investments in the new, competitive local facilities in the 30 cities targeted for entry in the U.S. and in other markets abroad. Id. ¶¶ 27-28. These ventures, as well as existing residential and business customers, will also benefit from the larger scope and scale that the new company will be able to achieve. Id. ¶¶ 27-31.

Procurement Savings. Although estimates of savings from increased volume discounts for equipment and services are by their nature inexact (depending as they do on outside vendors), these savings "are as desirable as any other economies" for purposes of

competitive analysis.[47] The Commission has noted that procurement savings tend to lower marginal costs and "thereby counteract the merged firm's incentive to elevate price."[48] The Ameritech merger will generate such savings. Gilbert/Harris Aff. ¶ 54.

By unifying procurement for both their wireline and wireless operations, the companies will expand the scale of purchases and will gain increases in volume discounts from their suppliers. The companies estimate that, by combining their equipment purchases, they will realize future savings across all operations of approximately $381 million. Kaplan Aff. ¶ 20(a); see also Gilbert/Harris Aff. ¶ 45.

Similar savings should be realized when the two companies combine their purchases of wholesale interexchange services. Id. ¶ 26. SBC and Ameritech presently offer long distance service to their out-of-region wireless customers. SBC also sells landline interexchange services to its out-of-region wireless customers. Neither company currently has any significant interexchange facilities outside its own region; both rely on existing interexchange carriers for the wholesale provision of long distance transport. This reliance on established interexchange carriers will continue for the foreseeable future. Kahan Aff. ¶ 39. The interexchange market is characterized by substantial economies of scale that are reflected in a continuum of volume discount levels for wholesale services. Kaplan Aff. ¶ 26. By combining wholesale purchases, the new company will receive deeper discounts from other vendors. Id.

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[47] 5 Phillip E. Areeda & Donald F. Turner, Antitrust Law ¶ 1104a, at 11 (1980).

[48] BA/NYNEX at ¶ 169.

Adjusting for predicted growth, SBC projects that the merger will yield long distance savings and increased revenues of $300 million annually. By reducing the costs of long distance carriage, the company will be able to offer lower priced long distance services, making it a more effective competitor in that market.

Consolidation Efficiencies. Additional expense savings to be realized by the consolidation of the two companies' operations include:

- Marketing/New Product Development/Advertising: The efficiencies expected to be achieved from combining the separate marketing, new product development and advertising efforts of the two companies are expected to result in $85 million in savings by the year 2003. Kaplan Aff. ¶ 20(c).

- Business Development and Strategic Planning: As with research and development, there will be no need to duplicate present efforts in these areas. SBC and Ameritech expect to save $20 million annually by 2003 through the combination of their efforts. Id. ¶ 24.

- Real Estate: By consolidating and eliminating duplication, the combined company will need less space and expects to save $54 million from reduced real estate operations. Id. ¶ 20(d).

The projected savings, though estimates, are based on SBC's prior experience. SBC will adopt the same strategy it used in its merger with Pacific Telesis Group ("Telesis") and draw on the experience it gained from its successful integration of those two companies. Id. ¶ 24; see also Gilbert/Harris Aff. ¶¶ 56-60.

Upon consummation of the Telesis merger, SBC formed a team to examine virtually every layer of the two companies' operations and identify areas where the combined company could reduce costs. Kaplan Aff. ¶ 6. The team examined, among other things: (i) duplicative support functions; (ii) areas where economies of scale could reduce costs; (iii) duplicative expenditures on new ventures; and (iv) ways in which the best management practices of each company could be adopted and extended across the

new company. Id. Having identified and quantified areas where savings could be attained, SBC incorporated the projected savings by reducing the budget of each affected department. Id. The process worked; the goals were met.

The merger of SBC and Telesis not only provided financial synergies by combining the best managers and best management techniques from the two companies, but also it has resulted in improved service, the introduction of new products, the improvement of networks and approximately 3,000 net new jobs in California since the merger closed. The increase in service was a result of merger-specific efficiencies – not higher prices. Local exchange service prices in California have not increased since the merger. Id. ¶ 93. For the second year in a row, Pacific Bell has been recognized as one of the top (ranked second) residential local telephone companies in customer satisfaction. Id. ¶ 96. Repair times at Pacific Bell have been reduced an average of 60 percent, from as much as four to seven days immediately following the merger to one to two days currently.[49] Id. ¶ 97. Repair and business office answering times have improved significantly.[50] Id. SBC has introduced a host of new services[51] and has announced the

[49] Service installation times have been reduced by an average of 80 percent, down from as much as two-three weeks to about three-four days currently. Kahan Aff. ¶ 97. These improvements have occurred despite the disruption resulting from the extreme weather caused by El Nino and record demand for new telephone lines. Id.

[50] A California PUC goal required Pacific Bell to answer 80 percent of its repair and business office calls in 20 seconds or less. In 1996 (prior to the merger), Pacific Bell met this goal in its business office in only 1 of 12 months; in 1997, it met or exceeded the goal in 12 of the months. In 1996, Pacific Bell met the goal for repair service in 4 of the 12 months; in 1997 it reached it in 10 of 12 months. Pacific Bell now routinely exceeds CPUC-mandated response times for directory assistance and operator assisted calls. Kahan Aff. ¶ 97 and Attachments D-F.

[51] Pacific Bell has already introduced to consumers such services as Caller ID with name delivery, on-demand features (like pay-per-use three-way calling), and enhanced Internet services with lower ISDN rates. Pacific Bell also has introduced Managed Frame Relay

broadest rollout of DSL service anywhere in the U.S.[52] Id. ¶ 98.

Benefits to Employees and Communities. Jobs in California have increased and benefits to Telesis employees have improved since the Telesis merger. Id. ¶ 94. As of May 1998, Telesis and its affiliates created almost 3,000 net jobs or a 5.8 percent increase in jobs in California since the merger. Id. The employees' benefits have improved as well. Id. ¶ 95. For example, more than 15,000 California employees now receive stock options, up from a handful premerger. Id. The company also increased its matching contribution to the employee savings plan. Id.

Similarly, the merger of SBC and Ameritech will benefit local economies throughout the new SBC's service area. The strength and resources of the combined company will permit investment in an expanded range of new and enhanced services, which will result in increased local spending, the addition of new jobs and a resulting increase to the local tax base. Even though some duplicative positions will be eliminated, the merger will create new positions in the desirable communications services employment sector and will attract and retain highly skilled professional and technical personnel to the new SBC's service areas. But an overriding benefit to in-region ratepayers will be the ability of the new SBC to compete successfully to retain multi-location business customers, and thereby avoid losses of high volume business. Such losses can lead to disinvestment and/or rate increases in order to cover fixed costs. Gilbert/Harris Aff. ¶¶ 6-10.

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and web hosting services for business and has announced a rollout of business-oriented ADSL services. Id. ¶ 98.

[52] The company's plans call for initial DSL availability in some 200 California communities. Id. ¶ 98.

Benefits from Geographic Expansion. The expanded geographic scope of the new SBC will result in additional benefits for customers. For example, the new SBC will be able to link its customer service centers across the country and the globe in all time zones, providing more personnel to handle requests and resulting in shorter response times. Weller Aff. ¶ 28. Additionally, the added scale of these customer service centers will enhance the new SBC's ability to provide multilingual customer support. Id. ¶ 27. Features offered by each company will be offered across a unified system. Kahan Aff. ¶ 30. Consolidated mobile service support systems will reduce fraud without the need for "PIN" numbers and other unpopular security measures. Weller Aff. ¶ 29. Subscribers to the new SBC's Internet services will be able to avail themselves of local or toll-free access numbers in a wide area. Id.

Businesses will also be able to take advantage of the wider geographic scope of the post-merger company. For example, a company headquartered in one of the new SBC's states that has offices and plants in other states, and overseas, will be able to use a single point-of-contact for telecommunications services throughout its operations and receive consolidated billing. Weller Aff. ¶ 21. The new SBC, as a single-source telecommunications supplier for national and international businesses, will be able to provide managed services across widely separated locations, including effective advice and management of customer-premises equipment. A telecommunications consultant of the new SBC will be able to help business customers design national and international systems without the disadvantages of having to deal with independent vendors and

multiple contacts for their various locations, including those in Europe, Asia, South America and South Africa.

Benefits from New Products and Services. The range of available consumer services and products will increase because of the economies of scale attainable by the new SBC. Weller Aff. ¶ 30; Schmalensee/Taylor Aff. ¶ 13; Gilbert/Harris Aff. ¶¶ 30, 50. Services that currently go undeveloped because of high start-up costs will roll out to customers because the larger number of potential users for such services will support higher research, development and up-front costs. Weller Aff. ¶ 30; Gilbert/Harris Aff. ¶¶ 30, 50; Schmalensee/Taylor Aff. ¶ 20. Furthermore, new services will move through research and development and into customers' homes much faster and more economically. Weller Aff. ¶ 30; Schmalensee/Taylor Aff. ¶ 19; Gilbert/Harris Aff. ¶¶ 29-38. The new services will expand the options available for obtaining packages of services by customers of the new SBC, who will enjoy the increased convenience of one-stop communications services shopping and integrated billing.[53] Weller Aff. ¶ 30.

The rollout of new services can be time-consuming and involve considerable up-front costs.[54] Before new services can be fully deployed, the hardware and software must be tested. The service itself is then tested with a small group of consumers. Lessons learned from these two trials are then incorporated into a full-scale rollout. These steps

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[53] William J. Holstein et al., Bill Gates's Legal Problems Get Bundled, U.S. News & World Reports, Dec. 22, 1997, at 32 (quoting Asst. Atty. Gen. Joel Klein).

[54] See generally J. Grubman, Paine Webber, Reevaluation of the Local Telephone Industry - Industry Report, Investext Rpt. No. 944535, at *8-*9, *11 (Dec. 28, 1989). See also J.D. Gross et al., Donaldson, Lufkin & Jenrette Securities Corp., Cincinnati Bell – Company Report, Investext Rpt. No. 820997, at *5 (Aug. 26, 1988) ("Because much of the cost associated with providing [vertical] services is fixed, as volumes for all of these services increase, they will become even more profitable.").

can take a great deal of time and money, and much of this effort is duplicated from firm to firm. Weller Aff. ¶ 30; Schmalensee/Taylor Aff. ¶ 19; Gilbert/Harris Aff. ¶¶ 30, 50.

Both SBC and Ameritech, for example, plan a widespread deployment of DSL technology. This requires a great deal of advance planning and testing. At the end of 1997, SBC had 200 employees dedicated to testing modems to be used in its trials.[55] SBC has a subsidiary, Technology Resources, Inc. ("TRI"), that provides technical consulting for all of SBC's domestic and international operations. Kaplan Aff. ¶ 20(c). TRI was instrumental in finding solutions to some of the technical problems that SBC encountered while testing its DSL product. Id. Ameritech has no subsidiary equivalent to TRI.

After equipment is tested, a new service like DSL is then typically offered to a small group of consumers. This trial is an absolutely essential part of troubleshooting problems and making sure they never become systemwide crises. SBC began testing its DSL service in Houston in mid-1996[56] and expanded its trial to include Austin and San Francisco in December 1997.[57] In the spring of 1998, nearly two years after its first market test, SBC began a statewide rollout in California.[58] Ameritech began testing its DSL service in October 1996. Ameritech launched its DSL service in Ann Arbor in late

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[55] See Tom Abate, 2 Fast-Modem Makers Decide To Get Married, S.F. Chron., Oct. 2, 1997, at D1.

[56] See Leslie Gornstein, Quick New TI Chip Possible Boon to the Internet, Fort Worth Star-Telegram, Feb. 4, 1997, at 1.

[57] See SBC Unveils Two New DSL Test Markets, ISDN News, Dec. 2, 1997, available at 1997 WL 9052883.

[58] See SBC Communications Announces Broad ADSL Deployment Across California, Business Wire, May 27, 1998, at 14:14:00 (available on Westlaw).

1997, expanded the service to Wheaton, Illinois and Royal Oak, Michigan, and has stated broad expansion goals for the service (i.e., to pass 70 percent of homes). Weller Aff. ¶ 30. Here again, the two companies are currently learning the same costly lessons and solving very similar problems, at duplicative expense. Combining such efforts will spread development costs and risks across a broader base, sharply reducing unit costs and accelerating the delivery of new services to market. Gilbert/Harris Aff. ¶¶ 35-38.

Implementing "Best Practices". This merger, and SBC's merger with SNET, will permit the new SBC to take advantage of the best ideas and practices developed through years of experience by the telephone and wireless subsidiaries of four different companies – SBC, Ameritech, Telesis and SNET – in addition to ideas developed through working with numerous foreign carriers. Kaplan Aff. ¶ 6; Weller Aff. ¶ 25; Schmalensee/Taylor Aff. ¶ 13; Gilbert/Harris Aff. ¶ 27. Ameritech has already learned that this selection of "best practices" techniques can result in strong advantages. Weller Aff. ¶ 14; Rivers Aff. ¶ 18. For example, several years ago Ameritech centralized the management of many carrier operations that previously had been operated on a state-by-state basis. Weller Aff. ¶ 25; Rivers Aff. ¶ 19. The shared ideas and systems resulted in an improvement in customer service response time, enhanced network reliability. Weller Aff. ¶ 25. This effect will be magnified through the merger. The resulting cost savings can be reinvested in the development of new products and services. Weller Aff. ¶ 24; Gilbert/Harris Aff. ¶ 41.

Although carriers generally try to guard their operating practices, the ability to compare such practices and evaluate the benefits and trade-offs as a result of consolidation is of great value to the combination of Ameritech and SBC. Rivers Aff.

¶ 25; Schmalensee/Taylor Aff. ¶ 13. The new SBC can unlock benefits for other segments of the carrier's businesses beyond the local exchange. For example, in addition to the benefits gained by the over 50 million local exchange customers, the new SBC's millions of wireless subscribers, one million directory advertisers, 30 million customers and three million businesses that receive directories all stand to benefit from the sharing of these best practices.[59] Gilbert/Harris Aff. ¶¶ 41, 47.

SBC, for example, has been very effective in developing and marketing new vertical services.[60] Kaplan Aff. ¶¶ 8-9; Gilbert/Harris Aff. ¶ 53. For example, SBC provides, on average, some 2.45 vertical services per access line, nearly double Ameritech's rate. Kaplan Aff. ¶ 8. SBC's penetration rate for Caller ID (absent Pacific Bell) was 47 percent compared to Ameritech's 25 percent in 1997. According to a recent analyst report, SBC leads Ameritech 14 percent to 9 percent in voice mail penetration rates, 49 percent to 43 percent in call waiting penetration rates, and 23 percent to 17 percent in second residential line penetration rates.[61]

Ameritech's customers will benefit from SBC's expertise in these vertical services, just as SBC's customers will profit from the lessons Ameritech derived from its centralization process. Rivers Aff. ¶ 19. SBC's customers will also benefit from

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[59] See SBC Investor Briefing (No. 200), SBC Communications and Ameritech to Merge (SBC May 11, 1998).

[60] See R.B. Wilkes, Brown Brothers Harriman & Co., Telecommunications Services – Industry Report, Investext Rpt. No. 2640386, at *43 (Nov. 28, 1997) (stating that "SBC has had considerable success in offering vertical services to its customer base."); see also D. Reingold et al., Merrill Lynch Capital Markets, SBC Communications, Inc. - Company Report, Investext Rpt. No. 2617904, at *2 (Jan. 6, 1998) ("SBC's expertise in vertical services should help create [SBC/SNET] revenue synergies.").

[61] See D. Reingold et al., Merrill Lynch Capital Markets, RBOC's & GTE: Telecom Services – Industry Report, Investext Rpt. No. 3309420, at Table 10 (Nov. 17, 1997).

Ameritech's efficiency in the provision of local service. Ameritech, for example, currently has fewer employees per access line than does SBC. Rivers Aff. ¶ 22.

The companies have already demonstrated one example of the advantages of best practices selection. Because of its national reach, AT&T has the opportunity to compare the services provided by all major telephone companies. AT&T preferred the methods used by SBC in provisioning high-capacity service to those used by Ameritech. At AT&T's suggestion, Ameritech has adopted SBC's methods for provisioning high-capacity telecommunications circuits used for data, video and voice services. Business customers, universities, CLECs and wireless carriers have benefited from these improved practices, which have reduced cycle time and improved quality service. Rivers Aff. ¶ 21. In similar fashion, following the merger, the new SBC will be able to select best products and services from across the four companies, providing residential customers with the same kinds of advantages currently available only to the largest of national customers. The reciprocal adoption of best practices is far more effective within a company than between independent companies. Schmalensee/Taylor Aff. ¶ 13.

As another example, Ameritech plans to provide its field technicians with hand-held computers that are expected to improve their productivity by 5-10 percent. Rivers Aff. ¶ 10. SBC, on the other hand, uses a global positioning service to route field personnel most efficiently to locations where they are needed. The convergence of these two technologies will provide a 21st century response to the continuing problems of maintaining and expanding communications networks, thus even further decreasing response time and improving customer satisfaction.

Customer service strategies that have proved successful in one operating company will quickly be implemented across the entire country. Furthermore, the scale of the combined companies justifies the investments that will be required to implement the "best practices" customer service programs as well as the development of new programs arising from these activities.

E. The Merger Is Necessary To Enable SBC and Ameritech To Implement Their New Strategy

Absent the merger, neither SBC nor Ameritech had plans for facilities-based entry into out-of-region local markets. Kahan Aff. ¶¶ 91; Weller Aff. ¶ 31. Each had scaled back or abandoned various out-of-region proposals because none provided a compelling business rationale commensurate with the risks and costs, and because none offered prospects as attractive as the companies had seen in their wireless, international and other businesses.

SBC and Ameritech, however, have a particular reason – and, together, they would have the ability - to expand their out-of-region ventures, because they face unprecedented new challenges in the profitable core of their operations, in-region service to business customers. Kahan Aff. ¶ 21; Carlton Aff. ¶ 12; Weller Aff. ¶ 35. In the first quarter of 1998, CLECs as a group, for the first time, added more business lines – especially the high-capacity lines, where both SBC and Ameritech have seen tremendous losses of businesses – than the BOCs.[62] Carlton Aff. ¶ 12. Foreign carriers with

[62] One analyst noted: it was "a startling event to have the crossover occur so soon." Saloman Smith Barney, CLECs Surpass Bells in Net Business Line Additions for First Time (May 6, 1998) (Saloman Smith Barney 1998). To put this in perspective, the non-AT&T long distance competitors did not have more incremental minutes than AT&T until 1986, a full 10 years after MCI carried its first switched long distance minute. Id.

enormous resources – NTT, Deutsche Telekom, France Telecom and British Telecom – will soon be numbered among those vying to serve the high-growth, high-profit telecommunications market of multinational corporations. See Table 14 at the "Tables" attachment; Schmalensee/Taylor Aff. ¶ 22. Each has already established a beachhead in the U.S.[63] ILECs are also rapidly losing share in a second, traditionally profitable market, the market for intraLATA toll services.[64] At the same time, SBC and Ameritech face unprecedented new obligations to implement entry-facilitating changes mandated by the 1996 Act. The companies have spent over $3 billion so far on this effort. Carter Aff. ¶ 7; Appenzeller Aff. ¶ 10. The changes occurring at a rapid pace in the industry, and the growing capabilities of competitors, have forced SBC and Ameritech to consider anew ways that they can effectively compete outside their regions. Gilbert/Harris Aff. ¶¶ 5-26.

At this pace, "the 50 percent loss of market share that AT&T saw from 1986 through 1996 could be replicated in the local market in a much quicker time period." Id.

[63] Nippon Telegraph and Telephone Corp. recently made a major commitment to a CLEC in the United States, investing $100 million in Teligent, which is constructing digital wireless network that ultimately will reach more than 700 cities and towns across the U.S. See Teligent Press Release, Teligent Announces $100 Million Strategic Investment by NIT (Sept. 30, 1997), available at <http://www.teligentinc.com/news/rell00.htm>. Deutsche Telekom and France Telecom, of course, have made substantial investments in Sprint and formed the Global One alliance. BT's small presence in the U.S. was augmented by its acquisition of an interest in MCI and the formation of the Concert alliance. See Sprint, Deutsche Telecom and France Telecom Investment in Sprint Completed (visited July 21, 1998) <http://www.sprint.com/sprint/press/releases/9604/9604260249.html>; Sprint, Global One Obtains Final European Union Approval (visited July 21, 1998) <http://www.sprint.com/sprint/press/releases/9607/9607170276.html>.While its relationship with MCI is unwinding, it has shown a clear interest in being a major global player. See Hilary Clarke, BT to Woo City Over Europe, The Independent (London), May 3, 1998, available at 1998 WL 13648693; Amanda Hall, BT Put on Hold Following the Collapse of the Merger with MCI, Sunday Telegraph, Nov. 16, 1997, at 6.

[64] See D. M. Hollingsworth, George K. Baum & Company, Competitive Local Exchange Carriers – Industry Report, Investext Rpt No. 1940508, at *6 (June 25, 1997) (stating that ILECs have been steadily losing revenues and market share in the intraLATA toll business).

It was the considered business judgment of both SBC and Ameritech that the two companies had to make a choice. They could stick to their existing businesses and regions and try to hang on in the face of the inroads of new competitors, or they could combine forces to become one of the small number of companies with the size, scope and commitment to compete everywhere. The top managers of the two companies did not believe there was a middle ground between these two approaches that was viable for them in the long term. SBC and Ameritech have opted to grow and compete. The new SBC is committed to enter new markets aggressively, offering service from coast to coast, and beyond. Kahan Aff. ¶¶ 10-15; Weller Aff. ¶ 11.

Neither SBC nor Ameritech currently has the scale, scope, resources, management and technical ability to implement the proposed national and global strategy on its own. SBC, the larger of the two companies, currently provides local exchange service in seven states.[65] Those states include only 11 of the nation's top 50 markets and generate only 18 percent of U.S. telecommunications revenues. The 30 out-of-region markets that the new SBC will enter stretch across 24 states and have a population of 70 million people. Viewed in the perspective of the considerably larger market that spans the Americas, Europe, Asia and Africa, SBC's existing base of operations is smaller still.

Neither SBC nor Ameritech could, on its own, take on the considerable financial burden of entering both national and global markets in the way that they have proposed. Kahan Aff. ¶¶ 79-80; Weller Aff. ¶ 36. The new strategy that the companies intend to execute together projects negative cash and earnings flow on a cumulative basis until

[65] This does not include Connecticut, which SBC will serve should its merger with SNET be approved.

almost a decade from now. Kahan Aff. ¶ 80. Established companies like SBC and Ameritech are valued by financial markets based on their earnings performance, and neither alone could suffer the earnings dilution that would accompany implementation of this plan. Id. ¶¶ 79-80; Weller Aff. ¶ 34.

Nor does it make business sense for either SBC or Ameritech on its own to attempt to go national on a more incremental basis, entering fewer markets more slowly. The success of the new strategy pivots on economies of scale and scope and a rapid national and global reach. In particular, for the new national and global strategy to work, SBC must be in the major markets in which its large customers need service, and it must be there promptly. Kahan Aff. ¶ 54. Moreover, SBC believes that gradual, incremental expansion will not permit it to respond to requests for proposals from multilocation customers or compete with the carriers that have the scale and scope to respond to those needs. Id. ¶ 13; Carlton Aff. ¶ 22. Starting from a smaller base would increase the cost and risk of the strategy prohibitively. It also would increase the number of markets SBC alone would have to enter, while reducing the base of customers it could expect to follow into new markets. Kahan Aff. ¶ 76; Carlton Aff. ¶ 24-30. Any alternative strategy would at best delay, or more likely preclude, the onset of significant new competition by SBC for both business and residential consumers in major and second tier markets. Kahan ¶ 51; Carlton Aff. ¶¶ 43-44.

SBC and Ameritech strongly believe that only the combined company will have the financial resources, customer base, managerial and employee talent, economies of scale and scope and business commitment most effectively to offer integrated telecommunications services (local, long distance, high-speed data and other services) to

consumers nationwide and beyond, for the benefit of both their customers and shareholders.

Resources. Entering 30 new major markets in the U.S. and 14 foreign cities essentially simultaneously – by building and operating new facilities and marketing new packages of service to large, medium-sized and small businesses and residential consumers – presents daunting management challenges. Carlton Aff. ¶ 31. Neither SBC nor Ameritech alone has the management depth to implement such a strategy. Kahan Aff. ¶¶ 77-78; Weller Aff. ¶ 33. In order to do so, each would have to hire and train additional employees, an especially difficult task during a time of low unemployment and high demand for personnel with telecommunications experience. Kahan Aff. ¶ 78. With the merger and the efficiencies it will entail, however, the new SBC will have a much larger pool of experienced personnel upon which to draw. Id.; Carlton Aff. ¶¶ 31-35. The pool of skilled and experienced personnel the combined company can field as one will facilitate implementation of the strategy. Carlton Aff. ¶ 35.

The new SBC also will have the capital it needs to execute its plan. Entering all of these new markets will be costly and the merger allows these costs, and the attendant earnings impact, to be spread over the much larger customer and shareholder base of the combined company. Kahan Aff. ¶¶ 79-81.[66] Based on current results, the new SBC would have annual revenues of $43 billion and net income of $4 billion. While it will be a large company, it would still have fewer customers, generate less revenue and have

[66] As Commissioner Ness has recognized, there are "huge investment requirements for expansion of telecommunications infrastructure." See Susan Ness, Global Competition in Telecommunications, Remarks before the Women's Foreign Policy Group (Jan. 23, 1997), available at <http://www.fcc.gov/speeches/ness/spsn701.html>.

lower operating cash flow than AT&T/TCG ($51 billion/$4.6 billion, even before adding the revenues of TCI) and it would be comparable in size to other major carriers.[67] In the global arena, the new SBC's revenues will leave it substantially smaller than NTT and two of the four existing global alliances.[68] See Table 14 at the "Tables" attachment.

Economies of Scale and Scope. Network industries are characterized by powerful economies of scale and scope, which are critical factors in purchasing and deploying new technologies and services.[69] Large buyers of equipment are able to negotiate large discounts with hardware and software vendors, such as Nortel, Lucent, Siemens and Alcatel. See Schmalensee/Taylor Aff. ¶¶ 11-12. Purchases of bulk services, like wholesale interexchange transport or Internet backbone access, also become much less expensive with scale. Id. ¶ 13. Scale also eliminates many duplicative general and

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[67] Comparative figures for other carriers are as follows: WorldCom/MCI ($27 billion/$500 million); Sprint ($15 billion/$1 billion); Bell Atlantic ($30 billion/$2.5 billion); BellSouth ($21 billion/$3.3 billion); GTE ($23 billion/$2.8 billion); Nippon Telephone ($77 billion/$2.4 billion); Deutsche Telekcom ($39 billion/$2 billion); and France Telecom ($27 billion/$2.5 billion). See The Fortune Global 500, Fortune, Aug. 3, 1998, at F15; MCI, S.E.C. Form 10-K (1997); WorldCom, S.E.C. Form 10-K (1997).

[68] WorldPartners is an alliance among 17 foreign carriers and AT&T; GlobalOne is an alliance among France Telecom, Deutsche Telekom and Sprint; Unisource is an alliance among incumbents in the Netherlands, Sweden and Switzerland. Cable & Wireless Inc., a U.K. holding company with ownership interests in over 25 foreign PTTs, also has ownership interests in at least 10 other foreign long distance and wireless carriers. See Table 17 at the "Tables" attachment.

[69] The FCC has recognized that firms that can take advantage of scale economies by spreading development costs over a larger customer base are more likely to invest in infrastructure upgrades. See, e.g., In re Bell Atlantic Mobile Systems, Inc. and NYNEX Mobile Communications Co., Order, 10 FCC Rcd. 13368, ¶ 46 (1995) ("[T]he alleged efficiencies will improve service to customers by promoting technological innovation and new or improved service offerings for consumers."); see also In re Competition, Rate Deregulation and the Commission's Policies Relating to the Provision of Cable Television Services, Report, 5 FCC Rcd. 4962, ¶ 71 (1990) ("[I]ncreased concentration [in the cable industry] has provided economies of scale and fostered program investment").

administrative costs, providing selling and maintenance efficiencies.[70] As discussed above, SBC and Ameritech anticipate efficiencies in these and other areas. See Gilbert/Harris Aff. ¶¶ 39-47.

In addition, large providers of service can distribute the costs of funding the development of new technology over an extended base of operations. Kaplan Aff. ¶ 20(c); Schmalensee/Taylor Aff. ¶ 13. Size also diminishes the risks of developing new services. Kaplan Aff. ¶ 20(c); Schmalensee/Taylor Aff. ¶ 19.

Geographic scale and scope are equally important to national and multinational customers. Because of their market reach and the breadth of service they can provide, large companies like AT&T/TCG/TCI and WorldCom/MCI/IMFS/Brooks/UUNet can bid to serve a large customer's telecom needs around the world. Schmalensee/Taylor Aff. ¶ 14. The new SBC will have the economies of scope and scale essential to permit it to develop new services and market them nationwide, at competitive prices. Kahan Aff. ¶ 81.

* * *

The structure of the telecommunications industry cannot be set in stone. Congress recognized this in enacting the 1996 Act, and the Commission has recognized it in approving major mergers as in the public interest. Limiting the RBOCs to the regions to

[70] See M.J. Renegar et al., ABN AMRO Chicago Corp., CLEC Fourth Quarter and 1998 M&A Outlook – Industry Report, Investext Rpt. No. 2617676, at *1 (Dec. 30, 1997); B. Garrahan et al., Lehman Brothers, Inc., 1998: The Year of Telecom Consolidation – Industry Report, Investext Rpt. No. 3312761, at *14 (Nov. 25, 1997) (estimating that horizontal mergers can generate up to a 10-15 percent reduction in combined sales, general and administrative (SG&A) expenses).

which they were assigned in the divestiture decree makes no sense in the dynamic environment of today's global industry.

The 1984 decision to divide the old Bell System into eight parts was made by AT&T and reflected little more than Bell's own traditional practice of dividing the nation up into local operating companies and regional marketing territories.[71] The divestiture decree itself did not call for seven Regional Holding Companies;[72] both Assistant Attorney General William Baxter and AT&T's then-general counsel testified before Congress that the decree would not have precluded AT&T to spin off all of the BOCs into a single holding company.[73] No public official expressed any strongly held views regarding how many or few Regional Bells there would be, since no one anticipated any competition by, among or

[71] As summarized by the United States Telecommunications Suppliers Association in 1983, "Western Electric's existing 'Bell Sales' operation performs a wide variety of procurement related functions for the BOCs through a highly integrated network of facilities, organized into seven regions which are virtually identical to the areas covered by AT&T's proposed 'regional holding companies." See Comments of United States Telecommunications Suppliers Association Concerning AT&T's Proposed Plan of Reorganization at 7-8, United States v. Western Elec. Co., Civ. Action No. 82-0192 (D.D.C. Feb. 14, 1983).

[72] See United States v. AT&T, 552 F. Supp. 131, 227 (D.C. Cir. 1982) (stating to the contrary that "nothing in this decree shall require or prohibit the consolidation of the ownership of the BOCs into any particular number of entities").

[73] See United States v. Western Elec. Co., 797 F.2d 1082, 1091 (D.C. Cir. 1986) (citing AT&T Proposed Settlement: Hearings Before the Senate Committee on Commerce, Science and Transportation, 97th Cong., 2d Sess. 73 (1982) (testimony of William F. Baxter)), aff'g in part, dismissing in part, 627 F. Supp. 1090 (D.D.C. 1986); see also Department of Justice Oversight of the United States versus American Telephone and Telegraph Lawsuit: Hearings Before the Senate Committee on the Judiciary, 97th Cong. 58, 141-142 (1982) (prepared statement of William F. Baxter; testimony of Howard J. Trienens); United States v. AT&T, 552 F. Supp. at 142 n.41 ("The number of new Operating Companies is not specified in the settlement proposal."); United States v. AT&T, 552 F. Supp. at 227.

(least of all) against Bells.[74] The decree assumed that the local exchange was a natural economic monopoly and resolutely quarantined the presumptive monopolists.[75]

Subsequent developments established that the natural monopoly assumption was wrong and counterproductive. Thus, the 1996 Act assumes the opposite: competition is not only possible but inevitable, and the quarantines are to be phased out to the extent (as with out-of-region competition) they were not eliminated immediately in 1996. Exclusive franchises have been eliminated, and rapid technological advance is propelling fundamental change in the price, quality and variety of telecommunications services. Gilbert/Harris Aff. ¶¶ 5-26.The Act further anticipates that telephone, cable and data services will converge, and includes a range of initiatives to facilitate that process. Id. ¶¶ 11-21. There is no reason that the old industry structure, erected on the pillars of exclusive local franchise, regulated monopoly and analog technology, should endure in the new environment. Indeed, the regional structure of the RBOCs is the result of the AT&T settlement and Consent Decree, not the result of current or historic patterns of economic efficiency. See Carlton Aff. ¶ 14. The Commission, likewise, has recognized that the number of Bell Companies is not immutable.[76] The proposed merger of SBC and

[74] The Decree expressly prohibited the Bell Companies from competing against AT&T in the long distance market, or indeed against anyone in any other market. See United States v. AT&T, 552 F. Supp. at 227 ("no BOC shall . . . provide interexchange telecommunications services"); United States v. Western Elec. Co., 627 F. Supp. at 1108 (D.D.C.) 1986 ("The conclusion that the local companies may not engage in exchange telecommunications outside their own areas is also supported by policy underlying the decree"), aff'd in part, dismissed in part, 797 F.2d 1082 (D.C. Cir. 1986).

[75] See United States v. AT&T, 552 F. Supp. at 227-28.

[76] See In re Applications of Pacific Telesis Group and SBC Communications Inc., Memorandum Opinion and Order, 12 FCC Rcd. 2624, ¶ 32 (1997) ("SBC/Telesis") ("[N]othing in the Communications Act or the antitrust laws requires the present number of RBOCs, or any particular number of them").

Ameritech acknowledges and embraces these changes, and offers the prospect of significant new competition at the local, national and global levels.

III. THIS MERGER WILL NOT RESULT IN ANY SIGNIFICANT DIMINUTION IN COMPETITION

The merger of SBC and Ameritech offers tremendous benefits to consumers of telecommunications services and to the U.S. as a whole, as described in the preceding section. Moreover, the merger does not pose any harm to competition.

With very limited exceptions, SBC and Ameritech provide telecommunications services in geographically distinct areas. The principal exception is the overlap of their cellular systems in Chicago and St. Louis (and certain surrounding areas).[77] Consistent with the Commission's rules, 47 C.F.R. §§ 20.6 & 22.942, the Applicants will transfer one of their overlapping cellular licenses in each area to a third party, thereby resolving this issue. The Applicants are actively negotiating with a number of parties and will promptly advise the Commission as soon as a definitive agreement to transfer these licenses is reached.

[77] These systems consist of certain MSAs and RSAs operated as single systems, headquartered in Chicago and St. Louis.

The complete list of overlapping cellular license areas is as follows: Chicago, IL MSA; St. Louis, MO-IL MSA; Gary-Hammond-East Chicago, IN MSA; Springfield, IL MSA, Champaign-Urbana-Rantoul, IL MSA; Bloomington-Normal, IL MSA; Decatur, IL MSA; Illinois RSA 2-B3; Illinois RSA 5-B2; Illinois RSA 6; Missouri RSA 8; Missouri RSA 12; Missouri RSA 18; and Missouri RSA 19. SBC and Ameritech have clustered these license areas into their Chicago and St. Louis systems. In addition, while SBC has no ownership interest, it does manage a portion of the cellular system in Missouri RSA 10, where part of Ameritech's competing system is located.

As discussed below, there is also no reason for concern about the elimination of potential competition between SBC and Ameritech in any local market. For one thing, there is substantial actual competition in both markets, as we discuss in greater detail in Section IV.C.1. Furthermore, neither SBC nor Ameritech is a significant potential competitor of the other. Long before consideration of this merger, SBC had affirmatively rejected trying to use its cellular assets as a base for providing local exchange service in Ameritech's Chicago service area. Ameritech's sole plans to provide local exchange service in any SBC service area were limited to: (a) reselling SWBT service to Ameritech's residential cellular subscribers in St. Louis and (b) reselling local service out-of-region to Ameritech's largest in-region customers (a service for which Ameritech has only one customer). Ameritech had no plans to offer facilities-based competition in any SBC service area and is not a significant potential competitor of SBC, much less one of a few significant potential competitors. Put another way, neither SBC nor Ameritech is a "most significant market participant" in any market where the other is the incumbent LEC.

A. The Merger Will Not Eliminate Any Substantial Actual Competition

The merger will not eliminate or substantially lessen actual competition in any relevant market. The only significant actual competition between the Applicants today is in the provision of cellular service in Chicago, St. Louis and certain surrounding areas. As discussed below, and as required by the Commission's Rules, Applicants will cure those overlaps by divesting overlapping cellular licenses. There is also de minimis, isolated "competition" between the Applicants in providing local exchange service to

large business customers and in long distance service outside their respective regions. These overlaps are, however, trivial and do not give rise to any significant competitive concerns.

1. Wireless Services

The Commission has previously defined interconnected mobile phone service, including cellular, broadband PCS and interconnected, trunked SMR services, as a relevant market for competitive analysis.[78] As noted above, SBC and Ameritech hold interests in certain overlapping cellular licenses in the Chicago and St. Louis areas. In each such area and in all their wireless markets, SBC and Ameritech compete with other providers of cellular, PCS, SMR and other wireless services.[79] See Section IV.C.2, below.

The competitive analysis of wireless overlaps can be abbreviated because SBC and Ameritech will comply with the Commission's rules prohibiting anyone that owns or controls a cellular license from acquiring an ownership interest in another licensee in the same cellular geographic service area. 47 C.F.R. § 22.942. The Commission's spectrum aggregation rules also prohibit a commercial mobile radio service ("CMRS") licensee

[78] See In re Application of Pittencrieff Communications, Inc. and Nextel Communications, Inc., Memorandum Opinion and Order, 13 FCC Rcd. 8935, ¶ 24 (1997); In re Applications of Pacificorp Holdings, Inc. and Century Telephone Enterprises, Inc., Memorandum Opinion and Order, 13 FCC Rcd. 8891, ¶ 28 (1997). See also Implementation of Section 6002(b) of the Omnibus Budget Reconciliation Act of 1993, Third Report, FCC 98-91, at 13-14 (June 11, 1998) ("Third CMRS Competition Report").

[79] Paging markets are highly competitive with many providers, switching providers is easy and inexpensive, and there are no barriers to entry. See Third CMRS Competition Report at 51. Accordingly, there are no competitive concerns in any paging market.

from having an attributable interest in a total of more than 45 MHz of licensed CMRS spectrum with significant overlap in any geographic area. 47 C.F.R. § 20.6. Applicants will comply with the Commission's rules prior to consummation of the transfer of control of such licenses from Ameritech to SBC as contemplated by this Application.

Indeed, not only will the merger of SBC and Ameritech not eliminate any competition, it will strengthen competition and benefit consumers of wireless service by allowing the merged company to provide wider calling scopes, more consistent features and other consumer benefits. See Section IV.C.2, below.

2. Local Exchange Service to Large Business Customers

Ameritech and SBC compete to a de minimis extent for the provision of local exchange service to large business customers. Ameritech provides resold local exchange service outside its five-state region to only one large business customer. It currently serves, on a resale basis, 398 access lines in California, 118 lines in New York, and 86 lines in Texas for this customer. Weller Aff. ¶ 32. This is the product of a pilot project to expand relationships with existing, large in-region customers. Id. Unlike the National-Local Strategy that SBC intends to implement as a result of the merger, Ameritech's plan was aimed at reselling local service only to large business customers and was not designed to be the springboard for a broad-based entry into out-of-region local exchange service. There was limited customer interest in the service and it has not been expanded, because its financial performance was not meeting expectations and the expected margins did not justify a further roll-out. Id.

Large business and government customers enjoy the largest number of options for their local exchange and other telecommunications needs.[80] See Section IV.C.1. These are the customers most avidly pursued by CLECs. See Carlton Aff. ¶ 36. Accordingly, any competitive overlap between Applicants in the local exchange business is de minimis and not a cause for competitive concern. See Schmalensee/Taylor Aff. ¶ 28.

3. Long Distance Service

Neither SBC nor Ameritech is currently permitted to provide interLATA service in its region, except for incidental service, such as that provided to cellular customers. Each has begun to provide long distance service to a small degree outside its region, and there is thus some competitive overlap between them.[81] This overlap is de minimis, however.

The relevant geographic market for long distance service is nationwide.[82] Long distance networks are nationwide in scope, interexchange carriers market their services to

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[80] The Commission implicitly acknowledged this in focusing its attention in BA/NYNEX on residential and small business customers. BA/NYNEX at ¶ 53.

[81] To the extent that SBC or Ameritech is providing landline long distance service in the other's region, it will make alternative arrangements for these customers to receive landline long distance service after the merger, if necessary (as, for example, in the case of SBC's cellular customers in Illinois and Indiana, if SBC's Chicago cellular system is not divested as part of SBC's compliance with the Commission's rules regarding ownership of overlapping cellular licenses).

[82] See, e.g., In re Regulatory Treatment of LEC Provision of Interexchange Services Originating in the LEC's Local Exchange Area, Second Report and Order, 12 FCC Rcd. 15756, ¶ 67 (1997) ("LEC Interexchange Order"). In BA/NYNEX, the Commission considered LATA or metropolitan-area based markets to be relevant geographic markets for long distance service, although this does not appear to have been central to the competitive analysis. Given that the only barriers to expansion by a long distance carrier are those imposed uniquely on the RBOCs by section 271 of the 1996 Act, defining the relevant geographic market by LATA seems too narrow. In any event, as discussed below, this will not affect the result in this case.

customers across the nation and rates are averaged on a national basis. The business is dominated by the major interexchange carriers, AT&T, MCI/WorldCom and Sprint, which share over 80 percent of the market.[83] In contrast, SBC and Ameritech are two very small competitors among hundreds of resellers. As Drs. Schmalensee and Taylor conclude, the effect of the merger on competition between them is too small to trigger any competitive concerns. Schmalensee/Taylor Aff. ¶ 29.

This conclusion would be unaffected if the product market were limited to specific types of customers or if the geographic market were limited to various states, metropolitan areas or LATAs.[84] There is no plausible cause for concern about anticompetitive effects resulting from the merger in any long distance market.[85] To the contrary, as discussed in Section IV.C.4, below, the merger will promote long distance competition.

B. The Merger Will Not Eliminate Any Substantial Potential Competition

In its decision approving SBC's merger with Pacific Telesis, the Commission set out a framework for analyzing mergers between large local exchange carriers that

[83] See FCC Common Carrier Bureau, Long Distance Market Shares: First Quarter 1998 table 3.2 (June 1998), available at <http://www.fcc.gov/Bureaus/Common_Carrier/Reports/FCC-state-link/ixc.html#marketshares> (noting market share in revenues reported to shareholders).

[84] SNET's affiliate, SNET America, Inc., provides long distance service to customers in Connecticut, but there is no measurable overlap there with either Ameritech or SBC.

[85] Subsidiaries of SBC and Ameritech also issue calling cards to their customers which can be used in virtually all states where these customers travel. Neither company, however, markets, or had any plans to market, service in the other's territory. Thus, the provision of originating long distance service by either company in the other's territory is the fortuitous consequence of the use of a calling card by a travelling customer. This "competition" is obviously de minimis. See Schmalensee/Taylor Aff. ¶ 29.

focused on potential competition analysis.[86] Subsequently, the Commission refined that analysis in BA/NYNEX to take account of dynamic factors affecting the industry. In that decision, the Commission focused on identifying "the most significant market participants" as central to its analysis.[87] In this case, the merger of SBC and Ameritech will not eliminate substantial potential competition between them, nor is SBC or Ameritech a "most significant market participant" in any market in which the other is the incumbent LEC.

1. Relevant Product Market

The Commission has defined a relevant product market as "a service or group of services for which there are no close demand substitutes."[88] In BA/NYNEX, the Commission defined three relevant product markets for analysis: local exchange and exchange access service ("local service"); long distance (i.e., interLATA) service; and local exchange and exchange access service bundled with long distance service ("bundled services"). See BA/NYNEX ¶ 50. We will thus discuss the effects in those proposed markets. There are no other markets in which there are any plausible competitive concerns.

In addition, the Commission in BA/NYNEX assessed the effects of the merger in three separate customer segments that were grouped as having "similar patterns

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[86] SBC/Telesis at ¶¶ 17-18.

[87] BA/NYNEX at ¶¶ 7, 61-62.

[88] BA/NYNEX at ¶ 50 (citing LEC Interexchange Order at ¶ 27); cf. Dept. of Justice and Fed. Trade Comm'n, Horizontal Merger Guidelines (issued April 2, 1992) ("1992 Horizontal Merger Guidelines") at § 1.0-1.1.

of demand": residential customers and small businesses (the "mass market"); medium-sized businesses; and large business/government users. Id. ¶ 53. We will address the potential effects of the merger in each segment as the Commission did in BA/NYNEX.

2. Relevant Geographic Market

The Commission has defined a relevant geographic market as aggregating "those consumers with similar choices regarding a particular good or service in the same geographical area." Id. ¶ 54. In BA/NYNEX, the Commission defined a LATA – in that case, LATA 132, essentially covering NYNEX's New York Metropolitan Calling Area – as a relevant geographic market for local exchange, long distance and bundled services. Id. ¶ 55. Following that approach, we focus our analysis on the only two LATAs in which there could conceivably be potential competition concerns, the St. Louis and Chicago LATAs. These are the only areas in which one of the merging parties is the incumbent LEC while the other may have given any consideration to entry into local services.[89] See Schmalensee/Taylor Aff. ¶ 27. As discussed below, even in those two areas, the merger will not substantially lessen competition.

The Commission in BA/NYNEX also defined an alternative geographic market comprising the New York metropolitan area, including northern New Jersey, based on the finding that media advertising in New York reached consumers in Bell Atlantic's

[89] While SBC and Ameritech both provide service in the St. Louis LATA (LATA 520), they serve mutually exclusive territories (SBC in Missouri and Ameritech in Illinois) and are not actual competitors. Neither SBC nor Ameritech had even any preliminary plans to enter the local or bundled services markets in any other areas where the other is the incumbent LEC and, accordingly, there is no reason to analyze such markets further. Cf. BA/NYNEX at ¶ 57 ("Bell Atlantic was planning entry not only in LATA 132, but in other parts of the NYNEX territory as well.").

northern New Jersey service area. Id. ¶ 56. Varying the market definition did not affect the analysis in BA/NYNEX, nor would it in this case if the relevant geographic markets were defined as the Chicago and St. Louis metropolitan areas rather than the corresponding LATAs, as discussed below.

3. Market Participants

In BA/NYNEX, the Commission defined the universe of participants in the relevant market to include actual competitors – those firms currently competing in the relevant market and geographic markets – and "precluded competitors," described as "firms that are most likely to enter but have until recently been prevented or deterred from market participation by barriers to entry the 1996 Act seeks to lower." Id. ¶ 60. In this case, to the extent that either SBC or Ameritech is a precluded competitor in an area in which the other is the incumbent LEC, there is no reason to believe that it is a "most significant market participant" as that term was used in BA/NYNEX. Moreover, because there are numerous actual and precluded competitors in each of the relevant product markets (and in each customer segment of those markets) in the Chicago and St. Louis LATAs, there is no cause for competitive concern. See id. ¶ 65.

The Commission recognized in BA/NYNEX that "medium sized businesses are targeted by specialized firms that do not necessarily seek to address the mass market." Id. ¶ 53. In both Chicago and St. Louis there are numerous CLECs serving such customers. See Tables 5, 6, 9-12 at the "Tables" attachment. Those businesses are also served by the major IXCs. Accordingly, as the Commission found in BA/NYNEX, there are numerous market participants in that customer segment of all the relevant product

markets, and no reason to believe that either SBC (in Chicago) or Ameritech (in St. Louis) is a significant market participant whose elimination through merger will result in competitive harm.

The same is true for the large business/government user segment. These sophisticated customers purchase telecommunications services, including local, long distance and bundled services, under individually negotiated contracts and are pursued by numerous vendors. Kahan Aff. ¶ 30; see also BA/NYNEX ¶ 53. Here, too, as in BA/NYNEX, there is no reason to believe that the merger will eliminate a significant market participant or otherwise lessen competition.

Thus, in BA/NYNEX, the Commission's analysis focused on the mass market for local and bundled services. In that case, the Commission found that Bell Atlantic was likely to enter the mass market for local and bundled services in New York; that it was one of a few most significant market participants; and, based on the record, it was the most significant competitor to the incumbent, NYNEX. As we discuss in detail below, the record in this case inevitably leads to a different conclusion.

SBC had rejected attempting to enter the Chicago market and cannot be regarded as a significant market participant. In St. Louis, Ameritech developed a limited plan to offer local service (including bundled services) in that one area by reselling SBC service to its existing base of residential cellular customers. The plan was defensive, designed to protect Ameritech's base of existing cellular customers. Ameritech had no plans to offer facilities-based local service, either wired or wireless. It could not be considered a significant market participant in St. Louis and is certainly less significant than such competitors as AT&T/TCG/TCI, WorldCom/MCI/MFS/Brooks/UUNet and Sprint. In

any event, the planned divestiture of one of Applicants' cellular systems in St. Louis, permitting the new competitor to pursue the Ameritech resale strategy if it so chooses, will fully resolve any arguable loss of competition there. See Schmalensee/Taylor Aff. ¶¶ 32, 35.

a. Chicago

There are many actual and potential competitors in the markets for local and bundled services in Chicago. See Pampush Aff. ¶ 9, Attachment A; Schmalensee/Taylor Aff. ¶¶ 42-65; Map 25 at the "Maps" attachment; Tables 6, 10 and 12 at the "Tables" attachment; Section IV, below. The Affidavit of Stan Sigman, President of SBC Wireless, Inc., demonstrates that SBC is neither an actual nor a potential competitor in local or bundled services in Chicago because it had no plans to enter those markets.[90] It certainly is not one of the most significant market participants. See Schmalensee/Taylor Aff. ¶¶ 42, 65. Indeed, in BA/NYNEX the Commission found that non-adjacent out-of-region Bell Companies – like SBC in the case of Chicago[91] – were not among the most significant market participants in New York, and the same conclusion applies here. Id. ¶ 48; see BA/NYNEX ¶ 93. For this reason alone, further analysis of SBC as a competitor in Chicago is unnecessary.

[90] The discussion in this section would be no different if the relevant geographic market were defined as the Chicago metropolitan area rather than the Chicago LATA. Accordingly, references to Chicago or the Chicago LATA may be understood to refer as well to the Chicago metropolitan area.

[91] While SBC's region is "adjacent" to Ameritech's in the sense that they share a border between Illinois and Missouri, SBC's nearest local exchanges are hundreds of miles from Chicago. SBC sells cellular service in Chicago under the Cellular One brand name, which proved to be ineffective as a brand name for local exchange service in Rochester. Sigman Aff. ¶ 13. Thus, SBC has no more "visibility" in Chicago than Bell Atlantic or BellSouth, and considerably less than the major IXCs.

In any event, SBC is not even a potential competitor. SBC considered – and rejected – entry into the local exchange business in Chicago. Beginning in late 1995, SBC considered whether it could provide local exchange service to its out-of-region cellular customers. Sigman Aff. ¶ 3. It selected the Rochester, New York MSA as the pilot market for such a venture and entered the market in early 1997, reselling the service of the incumbent LEC, Frontier. Id. ¶ 7.

SBC's actual experience in Rochester was quite disappointing. SBC won few customers. Moreover, the customers it gained were not buying cellular service or generating other service revenues, and presented collection difficulties. Id. ¶¶ 7-8. SBC thus projected unprofitable operations for an unacceptably long period. Id. ¶ 9. By the fall of 1997, well before and independently of any consideration of this merger, the management of SBC's cellular business decided to discontinue the experiment and stop marketing to new customers, although SBC continues to provide local exchange service to the pilot customers in Rochester in order to preserve their goodwill. Id. ¶¶ 17-18.

Prior to the Rochester experiment, SBC had considered offering local exchange service in its other out-of-region wireless markets, including Chicago. Id. ¶ 10. It never took any steps toward such entry, however. The Rochester experiment led SBC to conclude that its cellular business did not provide a useful base for entering the local exchange business. Id. ¶¶ 11-16. During the summer of 1997, when it became clear that the Rochester experiment was not successful, SBC discontinued its consideration of

providing local exchange service in any of SBC's other out-of-region cellular markets, including Chicago.[92] Id. ¶ 17.

In contrast to SBC, the most significant mass market participants would include AT&T/TCG/TCI, WorldCom/MCI/MFS/Brooks/UUNet and Sprint, just as the Commission concluded with respect to New York in BA/NYNEX. See BA/NYNEX ¶ 82; Schmalensee/Taylor Aff. ¶¶ 48-56. AT&T has millions of long distance and wireless customers in Chicago, as well as the best recognized brand name in telecommunications, and it will have direct access to over one million households and tens of thousands of businesses in Chicago through TCI and TCG, respectively. See Map 25 at the "Maps" attachment; Schmalensee/Taylor Aff. ¶¶ 49-52. Indeed, Chicago is one of TCI's major cable clusters. WorldCom/MCI/MFS/Brooks/UUNet also has extensive CLEC facilities in Chicago. Schmalensee/Taylor Aff. ¶¶ 53-54. It and Sprint likewise have many thousands of customers in Chicago and well-recognized names. Id. ¶¶ 54-55. These firms are clearly more significant competitors to Ameritech than SBC. Id. ¶ 56.[93]

[92] SBC also had no plans whatsoever to provide local exchange service in the parts of Illinois outside Chicago in which it provides cellular service, or elsewhere in Illinois or Ameritech's other four states.

[93] Because Ameritech does not yet have authority to provide interLATA service to its in-region customers, it cannot yet provide bundled services. Other competitors in the market, such as WorldCom/MCI, WinStar, USN and Focal, face no such constraints and are providing bundled service to certain business customers. See Pampush Aff. ¶ 8, Attachment A. These competitors could easily expand their service. For that additional reason there is no potential anticompetitive effect in a market for bundled services.

b. St. Louis

As in the case of Chicago, the list of actual and precluded competitors for local and bundled services in the St. Louis LATA is a long one.[94] See Section IV.C.1, below; Schmalensee/Taylor Aff. ¶¶ 43-64; Map 15 at the "Maps" attachment; Tables 5, 9 and 11 at the "Tables" attachment. While Ameritech had proposed an embryonic entry into bundled local and wireless service in St. Louis, the accompanying Affidavit of Paul G. Osland makes clear that that effort was defensive in nature and limited to reselling ILEC service to Ameritech cellular customers. In fact, it resembles somewhat the venture that SBC unsuccessfully attempted in Rochester. It does not make Ameritech a significant market participant in St. Louis.

In early 1997, the management of Ameritech's cellular business unit perceived that its new wireless competitors in St. Louis – including AT&T and Sprint PCS, which have PCS licenses, and Nextel – were in a position to offer local exchange service bundled with wireless service. Osland Aff. ¶ 4. As a defensive strategy to protect its cellular customer base, Ameritech considered bundling resold local exchange service with its cellular product in St. Louis. Id. The original plan was to resell Southwestern Bell Telephone ("SWBT") service to Ameritech residential and small business cellular

[94] If the geographic market were defined as the St. Louis metropolitan area rather than the St. Louis LATA, the analysis would be no different. Thus, references to St. Louis or the St. Louis LATA should be understood to refer as well to the St. Louis metropolitan area. Ameritech is the incumbent LEC in some suburban areas in the Illinois portion of the metropolitan area but its territory and SBC's are mutually exclusive and there is no competition between them other than that described in this section. There is no evidence that SBC had any interest in competing in Ameritech's suburban St. Louis exchanges. Any visibility or name recognition that Ameritech had in St. Louis would derive mainly from its wireless presence in St. Louis. Indeed, Ameritech's plans regarding local exchange entry in St. Louis, discussed below, were based entirely on its wireless assets.

customers. Id. ¶ 6. That plan, known as Project Gateway, was scaled back to target only existing residential cellular subscribers (less than half the customer base) due to difficulties with system interfaces and development. Id. Project Gateway did not assume any facilities-based local service and required no use of existing Ameritech wireline facilities. Id. ¶ 7. The proposed service packages were to be priced to attract cellular customers and were neither intended nor expected to appeal to non-cellular customers. Id.

A trial was begun in January 1998, and approximately 390 trial customers (Ameritech employees and their families) have signed up for the service. Id. ¶ 8. The trial identified a number of financial, marketing and operational problems, including a confusing bill format, pricing and order processing problems, and the financial impact of increased competition in St. Louis, which reduced the economic attractiveness of some packages. Id. ¶¶ 8, 11. These issues were under review by Ameritech and had not been resolved at the time the proposed merger was announced. Ameritech's current financial projections for Project Gateway indicate that the project would produce a net income loss for three years and a free cash flow loss for five years. Id. ¶ 9. Ameritech put the project on hold for several reasons, including the financial projections, the issues raised by bill format and rate structure, operational problems, the other demands on the resources of Ameritech Cellular, the failure of wireless competitors to offer bundled service and uncertainties created by the planned merger with SBC. Id. ¶¶ 10-14. Even had Ameritech decided to go forward with Project Gateway, a limited resale offering to its residential cellular customers would not have constituted a significant entry into the local

exchange business in St. Louis. Schmalensee/Taylor Aff. ¶ 35. Indeed, Ameritech never had any plan to offer facilities-based local service in St. Louis. Osland Aff. ¶ 7.

Moreover, as in Chicago, the major IXCs are clearly significant competitors in St. Louis. See Schmalensee/Taylor Aff. ¶¶ 48-56. Both AT&T/TCG/TCI and WorldCom/MCI/MFS/Brooks/UUNet have large customer bases and actual CLEC facilities in St. Louis. See Map 15 at the "Maps" attachment. AT&T/TCG also has a large number of existing long distance customers and PCS subscribers. With the addition of TCI, which has a major St. Louis cluster, AT&T will reach 185,500 cable households in SBC's service area.[95] MFS, one of WorldCom's principal CLEC operations, has at least 81 route miles of fiber and at least 38 buildings on-net in St. Louis,[96] which will be combined with many MCI long distance customers. Sprint has both long distance and PCS customers in the market. All three of the major IXCs enjoy equal or greater brand identification in St. Louis and, in light of their existing facilities and customer bases, are clearly more significant market participants than Ameritech. Schmalensee/Taylor Aff. ¶ 56.

In any event, Applicants will have to divest one of their overlapping cellular systems in St. Louis. If the Ameritech system is sold, the purchaser will possess the same assets that Ameritech could have used as the base for CLEC entry in St. Louis – its

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[95] See TCI, Market Profile: St. Louis DMA (visited July 17, 1998), <http://www.tcimediaservices.com/stlouis/index.html>. TCI also serves another 70,000 subscribers in the Illinois portion of the St. Louis DMA, where Ameritech is the LEC. See id.

[96] See New Paradigm Resources Group and Connecticut Research, 1997 CLEC Report: Annual Report on Local Telecommunications Competition 450 (8th ed. 1997).

cellular customer base and network – and thus would have the same ability as Ameritech to bundle wireless and local services.[97] Id. ¶ 36.

4. The Merger Will Not Produce Any Adverse Competitive Effects

As demonstrated above, there is no significant direct competition today between SBC and Ameritech (apart from the cellular overlaps that will be cured), and no markets in which SBC and Ameritech are significant potential competitors. As Drs. Schmalensee and Taylor conclude, applying the standards the Commission applied in BA/NYNEX and the framework of the 1992 Horizontal Merger Guidelines, this merger poses no competitive concerns. Schmalensee/Taylor Aff. ¶¶ 65-66. The same conclusion holds under the unilateral effects, coordinated effects and dynamic effects analyses considered by the Commission in BA/NYNEX.[98]

a. Unilateral Effects

The Commission applied a unilateral effects analysis in BA/NYNEX not unlike that in Section 2.21 of the 1992 Horizontal Merger Guidelines. BA/NYNEX ¶ 102. This analysis is applied to mergers in markets for differentiated products and seeks to determine whether one of the merging firms has a leading position while the other is considered by buyers to be the "next best choice," meaning that the merger of the two may permit the merged firm to raise its price with less substitutability constraint than it

[97] This discussion assumes, for purposes of exposition, that Applicants will divest Ameritech's cellular license in St. Louis. The analysis and result would be no different if SBC's cellular license were divested.

[98] See, e.g., BA/NYNEX at ¶¶ 102, 114, 125.

faced before the merger. See 1992 Horizontal Merger Guidelines § 2.21. Assuming that mass market local or bundled services are differentiated products to which this analysis would apply, the question is whether consumers of those services in the Chicago LATA would consider SBC the next best choice after Ameritech, and whether consumers in the St. Louis LATA would consider Ameritech the next best choice after SBC.

In BA/NYNEX, the Commission found a likelihood of such unilateral effects. That conclusion was based on several critical findings for which there is no supporting evidence here. First, the record showed that Bell Atlantic planned a substantial entry into the New York LATA. Here, SBC had no such plans in Chicago, and we have discussed the limited nature of Ameritech's plans in St. Louis. Second, the Commission found that Bell Atlantic would be an important second choice for mass market consumers in the New York LATA. See ¶¶ 105-06. Here, there is no evidence that either SBC or Ameritech would be an important second choice for the other's local exchange customers.

Rather, the major, national interexchange carriers (including their CLEC affiliates) are the most significant "second choice" competitors. AT&T has expertise in the operation of telecommunications networks, incomparable brand name recognition, substantial infrastructure (augmented by its pending acquisitions of TCG and TCI), and huge customer bases in both SBC's and Ameritech's markets. Schmalensee/Taylor Aff. ¶¶ 49-52. WorldCom/MCI/MFS/Brooks/UUNet also has expertise in operating local telecommunications networks for sophisticated customers, as well as substantial infrastructure, customer base and name recognition in the two companies' regions. Id. ¶¶ 53-54. Sprint has extensive local exchange expertise (through United and Centel) and

also many customers and broad name recognition. Id. ¶ 55. Each of these competitors is a far more effective constraint on SBC and Ameritech than either of the merging parties would be on the other. Id. ¶¶ 48-56.

In other words, there is no reason to believe that the merger will remove a significant current constraint on the competitive behavior of either of the merging parties, and it is clear that sufficient future competition – from the major IXCs as well as the myriad of CLECs, niche firms and others that have been very successful at winning profitable business away from both Ameritech and SBC – will continue. Applying the unilateral effects analysis to this merger in these markets leads to the same result as application of the traditional potential competition test – there are and will continue to be enough sources of competition in these markets that the merger will not adversely affect competition or the public interest.

b. Coordinated Effects

There is no reason to believe that the merger will increase the likelihood of coordinated interaction in any of the relevant markets. Indeed, the National-Local Strategy itself plainly refutes any argument that the merger could facilitate coordinated behavior among large LECs. Furthermore, in a market with a large incumbent, all of the other market participants have a powerful incentive to compete and expand output. In other words, whether Ameritech competes in St. Louis or not, AT&T (especially in light of its pending mergers with TCI and TCG), WorldCom/MCI/MFS/Brooks/UUNet, Sprint, the many CLECs and all of the other competitors will continue to try to expand their business and compete vigorously with SBC in order to build their customer bases.

Nor is there any reason to believe that such emerging competitors would be likely to collude among themselves or that such coordination would have any impact on the market.

c. Dynamic Effects

The Commission also considers the merger's effect on dynamic market performance and, in particular, whether alternative entry into a local market by an incumbent LEC would affect the process of opening local markets to competition. See BA/NYNEX ¶¶ 125-27. Here, as discussed below, those effects are unambiguously positive. See Carlton Aff. ¶¶ 10-11, 42, 46; Gilbert/Harris Aff. ¶¶ 61-63.

The accompanying Affidavits of Stephen M. Carter of SBC and Terry D. Appenzeller of Ameritech detail the extensive efforts that both companies have made to open their respective local markets to competition. See also Table 1 at the "Tables" attachment. SBC has spent more than $1 billion to date to comply with Section 251 of the Communications Act and the competitive checklist under Section 271, and expects to spend more than $1.5 billion by the end of 1998. Carter Aff. ¶ 10. Ameritech has spent approximately $2 billion to date to do the same. Appenzeller Aff. ¶ 10. Over 3,300 SBC employees and over 1,200 Ameritech employees have worked to fulfill Section 251 and 271 requirements, such as customer service, operations support systems ("OSS"), number portability, trunking, local service centers and computer systems. Carter Aff. ¶ 7; Appenzeller Aff. ¶¶ 8, 9.

CLECs are operating successfully in SBC's and Ameritech's regions, as a result of these efforts. See Tables 1, 3, 4, 7, 8, 11, 12, and 13 at the "Tables" attachment. SBC was the first ILEC to negotiate an interconnection agreement under the 1996 Act. Carter

Aff. ¶ 5. To date SBC has negotiated 374 interconnection agreements, 93 percent of which have been signed without arbitration. Id. Ameritech has 175 approved interconnection agreements with 39 carriers. Appenzeller Aff. ¶¶ 15, 30.

Pursuant to these interconnection agreements, SBC has provided more than 350,000 interconnection trunks to CLEC customers and exchanged more than 14 billion minutes of local and Internet traffic with CLEC networks. See Attachment 1 to Carter Aff. CLECs have attached their lines to hundreds of thousands of SBC poles and occupy 8.2 million feet of SBC conduit space. Id. They have received more than 60,000 unbundled local loops and nearly 350 unbundled switch ports from SBC. Id. CLECs are able to access these facilities and interconnect with SBC's local networks using 490 operational physical collocations and 58 virtual collocation agreements. Id.

Similarly, Ameritech has leased approximately 94,600 unbundled local loops to CLECs. Appenzeller Aff. ¶ 48. As of May 1, 1998, competing carriers were physically collocated in 113 and virtually collocated in 166 Ameritech wire centers, with 77 more wire centers scheduled for activation in the third quarter of 1998. Id. ¶ 41. This represents 23 percent of Ameritech's wire centers, but those centers serve 63 percent of the business lines and 50 percent of the residential lines in Ameritech's territory, showing how CLECs have focused on the most important end offices. Pampush Aff. ¶ 14; Appenzeller Aff. ¶ 41. Ameritech also has made available nondiscriminatory access to poles, ducts, conduits and rights-of-way. Id. ¶ 26. Competing carriers are offering service in more than 80 percent of the communities that Ameritech serves, including virtually every community that Ameritech serves in Illinois and Michigan. Id. ¶ 12.

As the process of implementing the 1996 Act continues to unfold, ongoing progress has been made by both companies, and we expect this progress to continue. Thus, any barriers to local exchange entry that may have existed in the past have been and are continuing to fall.

The merger will not impede progress in implementing the 1996 Act. That process is ongoing and irreversible. Indeed, the overall effect of the merger is to advance that process by enabling SBC's and Ameritech's entry into numerous local markets via the National-Local Strategy and the inevitable responses of others who will enter SBC's and Ameritech's markets.

d. Potential Entry and Expansion

A merger cannot substantially lessen competition in a market if new entry can easily occur in that market.[99] In this regard, expansion by small firms can have the same procompetitive effect as new entry.

In BA/NYNEX, the Commission concluded that there remained barriers to new entry and expansion in the New York LATA. As time goes on and the process of market-opening advances, those types of barriers are disappearing, as is demonstrated by the substantial and effective entry that has occurred into local and bundled services in Chicago and St. Louis. Schmalensee/Taylor Aff. ¶ 43. More such entry is on the way. Pampush Aff. ¶ 7; see also Section IV.C.1, below. If the merger had any potential for raising price, the entry trend would only accelerate.

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[99] See, e.g., United States v. Baker Hughes, Inc., 908 F.2d 981, 987 (D.C. Cir. 1990); Oahu Gas Serv. v. Pacific Resources, Inc., 838 F.2d 360, 366 (9th Cir. 1988); United States v. Waste Mgmt., Inc., 743 F.2d 976, 981-83 (2d Cir. 1984); 1992 Horizontal Merger Guidelines § 3.0.

In fact, this merger will be a tremendous stimulus to new entry in the relevant markets – not because it will reduce competition, but because it will bring new competition to dozens of markets outside the SBC and Ameritech regions. This, in turn, will stimulate others to respond both in their own markets and by competing in the markets in which SBC/Ameritech will be the incumbent LEC. Schmalensee/Taylor Aff. ¶ 16; Carlton Aff. ¶ 10; Gilbert/Harris Aff. ¶ 28. The merger thus carries forward the market-opening policies of the 1996 Act by encouraging new entrants in a great many local markets.

Conditions are already conducive to entry in each of the relevant markets. See Schmalensee/Taylor Aff. ¶¶ 37-41; Section IV, below. For example, in local exchange service, entry barriers for resellers are very low. A CLEC may resell retail services either under an approved resale agreement or pursuant to an intrastate resale tariff. Since no substantial network investments are necessary, resellers can and do materialize almost overnight. Moreover, resellers can offer market-wide ("universal") service almost immediately, with little risk. They can challenge LECs as one-stop suppliers and establish primary-provider relationships with minimal investment. Any reseller can readily increase its "capacity" without effective limit. In sum, there is as much potential resale competition as there is ILEC capacity, and there are as many potential competitors as there are potential retailers of any mass-market good or service.

Entrants seeking to deploy capital most profitably use the unbundling alternative for many of their nonstrategic plant needs, but not for switching.[100] SBC and Ameritech themselves plan to rely heavily on unbundled elements in implementing the National-Local Strategy. While many carriers have already bought loops from SBC and Ameritech, only a very few entrants have ordered unbundled switching from SBC and none have done so from Ameritech, even though both companies stand ready and able to furnish it at any time.

Although by definition not as low as those for pure resale competition, entry barriers for facilities-based competition on an unbundled basis are quite modest. Schmalensee/Taylor Aff. ¶ 40. New entrants can install and operate powerful switching systems with relatively modest investment, as compared to the much higher cost of deploying an entire network. Tables 7, 8, 11, 12, and 13 (at the "Tables" attachment) depict the extensive facilities-based entry that has already occurred in SBC's and Ameritech's regions. In addition, numerous carriers have excess switching capacity that can readily be used to provide the same local switching services performed in SBC and Ameritech end offices.[101] Interexchange carriers are also adding end-office (Class 5) switches to their networks in the 13 states served by SBC, SNET and Ameritech. Moreover, because trunking costs are low and declining, switches do not have to be

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[100] The avoidance of access charges creates an additional incentive for interexchange carriers to deploy their own switching facilities for local exchange service. See 47 C.F.R.§ 51.509(b) (establishing collection costs and usage – sensitive charges for shared transmission and tandem switching).

[101] See, e.g., J. Dix and D. Rohde, AT&T Plots Invasion of Baby Bell Turf, Network World, July 8, 1996, at 1 (noting AT&T's effort to use its Digital Link services embedded base of Class 4 switches to provide local service to the company's dedicated access customers).

located in close proximity to a customer, or to a LEC central office. A relatively small number of switches can thus provide unbundled competitive service to a large geographic area.[102]

C. The Merger Will Not Impair Regulatory Effectiveness

For several reasons, this merger will not impede regulatory effectiveness, through the use of benchmark comparisons or otherwise. First, even at five – Bell Atlantic, BellSouth, GTE, SBC/Ameritech and U S West – the number of large LECs among which to compare and contrast local service performance would remain adequate for the Commission's regulatory needs. As discussed in Section II.E, above, the original number of RBOCs created at divestiture had no regulatory significance. Moreover, as the Commission noted in SBC/Telesis, "nothing in the Communications Act or the antitrust laws requires the present number of RBOCs, or any particular number of them." SBC/Telesis ¶ 32.

In addition to the development of more sophisticated regulatory tools, the increasingly competitive telecommunications environment makes the number of large LEC benchmarks less important. Competition alone will drive the provision of services to the most beneficial mix of quality and price. The Commission itself recognized that in a competitive environment, the use of benchmarks becomes "moot."[103] Indeed, to the extent that benchmark information, such as tariffed rates, service requirements or cost

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[102] See Intelcom Group, MFS Gain Strong Buy Recommendation From Investment House, Fiber Optics News, Feb. 26, 1996, available at 1996 WL 2327659 (stating that fiber-based CLECs can serve a 125-mile radius area with a single switch).

[103] See In re International Settlement Rates, Report and Order, 12 FCC Rcd. 19806, ¶ 14 (1997).

data, is publicly available, it may even inhibit competition.[104] Overall, a reduction by one in the number of large LECs available for benchmark comparisons will not impede regulatory effectiveness.

IV. THE MERGER IS IN THE PUBLIC INTEREST

In order to approve the transfer to SBC of ultimate control of Ameritech's FCC authorizations, the Commission must find that those transfers are consistent with the public interest, convenience and necessity. As interpreted by the Commission, that determination includes consideration of whether the applicants are qualified to control the licenses being transferred and whether the transaction is consistent with the policies of the Communications Act. BA/NYNEX ¶¶ 29-32; SBC/Telesis ¶¶ 12-13.

A. SBC Is Qualified To Control the Licenses

There is no doubt that SBC is eminently qualified to control these authorizations. SBC's qualifications to operate these authorizations are, of course, well known to the Commission. SBC is the ultimate parent of companies holding numerous FCC authorizations, including the same types of authorizations at issue here.[105]

SBC's qualifications to control these authorizations cannot reasonably be questioned. Indeed, as recently as last year, in connection with its approval of the

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[104] See In re Policy and Rules Concerning the Interstate, Interexchange Marketplace; Implementation of Section 254(g) of the Communications Act of 1934, Second Report and Order, 11 FCC Rcd. 20,730, at ¶ 37 (1996) (observing that "requiring nondominant interexchange carriers to file tariffs for interstate, domestic, interexchange services may harm consumers by impeding the development of vigorous competition, which could lead to higher rates").

[105] A list of the categories of FCC authorizations held by subsidiaries or affiliates of SBC is contained in the FCC Form 430 filed herewith.

SBC/Telesis merger, the Commission reviewed "the citizenship, character, and financial and technical qualifications" of SBC. The Commission noted that SBC "is a Commission licensee and communications carrier of longstanding," and it found, as it should find here, that SBC "possesses those qualifications."[106] Similarly, Ameritech is unquestionably qualified as the transferor of the authorizations at issue.

SBC is the parent of SWBT, Pacific Bell and Nevada Bell, which collectively serve over 33 million access lines within SBC's seven in-region states. As the owner of several of the country's largest telephone companies, SBC is well qualified to exercise ultimate control over the authorizations used in Ameritech's local exchange business.

There can also be no issue regarding SBC's qualifications to control the CMRS and other authorizations held by Ameritech's subsidiaries. Through its CMRS subsidiaries – Southwestern Bell Mobile Systems ("SBMS"), Southwestern Bell Wireless ("SWBW") and Pacific Bell Mobile Services ("PBMS") – SBC is the second largest cellular provider in the U.S., with operations in both the five states in which SWBT operates as well as in a number of out-of-region markets. SBMS and SWBW provide high quality, competitive service to their customers and, as a result, have an average market penetration rate that is significantly above the national average. In addition, PBMS is a rapidly expanding PCS provider in California and Nevada, and SBC has committed substantial financial and other resources to ensure that PBMS is meeting the

[106] SBC/Telesis ¶ 11. While some of the parties that filed comments in that proceeding sought to cast SBC in an unfavorable light, the Commission noted that "[n]o party claims that SBC lacks any of the qualifications just mentioned," id., nor could any party to this proceeding plausibly do so in connection with the merger of SBC and Ameritech.

FCC's objectives for PCS to become a new and effective competitor to the existing cellular systems in those states.

SBC's financial qualifications to control and operate Ameritech's authorizations are also beyond challenge. As demonstrated by the audited financial statement of SBC for the year ending December 31, 1997 (a copy of which is attached hereto), SBC has sufficient resources to ensure that Ameritech's operations will continue to serve the public interest, convenience and necessity. Further, since the transaction will be structured as a stock-for-stock merger, no new capital will be required to complete it. Thus, SBC's qualifications should simply not be an issue in these proceedings.

B. Analytical Framework

As discussed above, the Commission has interpreted the public interest standard applicable to proposed license transfers to require an overall balancing of the benefits of a transfer with potential harms to competition. See BA/NYNEX ¶ 2. Beneficial effects in a number of markets, or promotion of the overall policies of the Communications Act, can overcome potential harms to competition in a specific market. Id. ¶14.

In assessing the potential for competitive harm, the analysis begins by defining the relevant product and geographic markets. Next, the Commission identifies the participants in those markets, especially the most significant market participants. The Commission then evaluates the effects of the merger on competition in the relevant market, including potential unilateral or coordinated effects. The Commission also considers the merger's effect on the Commission's ability to constrain market power as competition develops. These potential anti-competitive effects must be balanced against

merger-specific efficiencies such as cost reductions, productivity enhancements, or improved incentives for innovation. In addition, the Commission considers whether the merger will support the general policies of market-opening and barrier-lowering that underlie the 1996 Act. Id. ¶37.

Here, as shown in Section III, above, there is no potential for competitive harm. But even if the Commission were to find such a potential in a given market, such as the loss of limited potential competition in St. Louis, the Commission would have to weigh that against the overwhelming procompetitive and other benefits the merger will provide in a great many markets, both within SBC's and Ameritech's regions as well as in telecommunications markets throughout the country and around the globe. As the Affidavit of Professor Carlton shows, the balance in this case clearly favors the merger. Carlton Aff. ¶ 41.[107]

C. Competition Is Flourishing and the Merger Will Promote Additional Competition in Many Telecommunications Markets

As discussed in Section II, above, this merger offers the prospect of tremendous procompetitive effects in local markets throughout the country, as well as in global telecommunications markets. It will also benefit the public interest by creating a new, major U.S. participant in the global telecommunications marketplace. In addition, the substantial cost savings and other synergies that will be achieved as a result of this merger, described in Section II.D, will provide benefits in all the markets served by SBC

[107] See also H. Hovenkamp, Federal Antitrust Policy § 13.4a (1994) (given the elusive nature of potential competition, it must be disregarded when weighed against improvements in actual competition that are likely to flow from a merger).

and Ameritech, now and in the future. These enormous procompetitive and other public interest benefits produced directly by this merger are themselves sufficient for the Commission to find the merger in the public interest even if it found – contrary to fact – that there could be a conjectural loss of potential competition in selective geographic areas. See BA/NYNEX ¶¶ 178, 192.

In this section, we describe the various markets in which SBC and Ameritech participate and identify the actual competition in those markets and the effects of the merger on competition.

1. Local Exchange and Exchange Access

The merger will promote competition in local markets throughout the current SBC and Ameritech regions and beyond. As we have shown, the National-Local Strategy and the other plans of the new SBC will inject tremendous new competition into local markets, in addition to the competition that has already been produced by regulatory, technological and market developments. Gilbert/Harris Aff. ¶ 28.

Section 251 of the Telecommunications Act of 1996 requires SBC and Ameritech to offer their services at "wholesale" rates, to allow competitors to interconnect at any technically feasible point and to offer piece parts (like local loops) for lease on an unbundled basis. As a result, CLECs can enter the market using a variety of strategies. A CLEC may resell retail services either under an approved resale agreement or pursuant to an intrastate resale tariff.

Alternatively, a CLEC can install facilities, such as switches or fiber networks, and combine those facilities with network elements obtained from the incumbent on an

unbundled basis. SBC's and Ameritech's implementation of these requirements has considerably lowered entry barriers, and numerous local competitors have entered markets throughout the two regions. See Schmalensee/Taylor Aff. ¶¶ 38-41, 43; Pampush Aff. ¶ 13; Table 1 at the "Tables" attachment.

Over 39 competitors provide service using a resale strategy in Ameritech's region, and 25 do so in SBC's states. See Appenzeller Aff. ¶ 15; Table 3 at the "Tables" attachment. In St. Louis, there are presently some 9 different CLECs reselling SBC local lines. See Table 5 at the "Tables" attachment. In Chicago, some 22 companies are reselling Ameritech local service – including AT&T, MCI, LCI and Cable & Wireless. See Table 6 at the "Tables" attachment.

In addition, competitors that connect their own switches to unbundled SBC or Ameritech loops face little difficulty in serving any profitable group of potential customers. Pampush Aff. ¶ 14. Competitors have already installed 547 switches in SBC's region, and 120 in Ameritech's.[108] These competitors include interexchange carriers and their affiliates like AT&T/TCG/TCI and MCI/WorldCom/MFS/ Brooks/UUNet; cable companies like Time Warner and Cox; and a host of smaller carriers like Connect Communications (of Little Rock, Arkansas) in SBC's region, and Buckeye Telesystem (a subsidiary of Buckeye Cablesystems in Toledo) in Ameritech's.

[108] See Pampush Aff. ¶ 13; Search of Local Exchange Routing Guide, Bellcore Traffic Routing Administration, Science Applications Int'l Corp. (July 1, 1998) ("LERG"). The LERG is based on information that is provided to Bellcore by incumbent and competitive local carriers. LERG switch counts do not always agree with counts from other sources, including public statements by the carriers themselves. Some of these discrepancies are due to the blurring of definitional lines between switching entities and rate centers. The bright line that once distinguished central office switches from other switching equipment has been fading as a new generation of remote switches and remote digital terminals (RDTs) have emerged with limited switching capabilities.

See Schmalensee/Taylor Aff. ¶¶ 48-62; Tables 7 and 8 at the "Tables" attachment. In the St. Louis LATA, at least 7 local competitors are operating 17 switches, and at least 13 local competitors are operating 37 switches in the Chicago LATA. See Schmalensee/Taylor Aff. ¶ 43; Pampush Aff. ¶ 9; Tables 9 and 10 at the "Tables" attachment. In addition, interexchange carriers that already have switches in the relevant geographic markets could readily use those switches in the provision of local service.

There are also extensive competitive transport facilities throughout the SBC and Ameritech regions and in the relevant geographic markets at issue in this transaction. Competitors' fiber networks currently total over 6,500 route-miles in SBC's region, and over 5,000 miles in Ameritech's.[109] Competitive landline transport is already available in every one of SBC's and Ameritech's states. See Tables 11 and 12 at the "Tables" attachment; Maps 3-29 at the "Maps" attachment; Pampush Aff., Attachment A.

In St. Louis, for example, MCI/WorldCom/MFS/Brooks/UUNet has operated a network since 1995.[110] AT&T/TCG's network, which is even more extensive than WorldCom's, serves the entire St. Louis metro area.[111] Similar, though smaller, networks are operated by Digital Teleport[112] and Intermedia.[113] Together competitors have

[109] Pampush Aff. ¶ 14. This is a conservative estimate based on the information available. It includes existing plant, planned networks and networks under construction.

[110] See New Paradigm Resources Group and Connecticut Research, 1998 CLEC Report: Annual Report on Local Telecommunications Competition, Carrier Profile: MFS-WorldCom at 11 (9th ed. 1998).

[111] See Map 15 at the "Maps" attachment.

[112] Digital Teleport's St. Louis network has been in operation since 1995. It consists of 200 route miles (17,700 fiber miles), with 27 buildings on-net, is collocated in 4 central offices, and is served by a Nortel DMS-500 Switch engineered to handle local and long distance traffic. Digital Teleport also operates networks in Fulton and Mexico, Missouri – both within the St. Louis LATA. The Fulton network consists of 5 route miles (360 fiber miles), with 7 buildings on-net. The Mexico network consists of 5 route miles (360

deployed some 484 route miles of fiber in that LATA.[114] See Map 15 at the "Maps" attachment. This is, of course, in addition to the extensive cable television network operated by TCI, which AT&T plans to use to provide competitive local telephone service.[115] In Chicago, MCI/WorldCom/MFS/Brooks/UUNet,[116] AT&T/TCG[117] and NEXTLINK[118] operate their own networks.[119] CLECs with networks planned or under

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fiber miles). See New Paradigm Resources Group and Connecticut Research, 1998 CLEC Report: Annual Report on Local Telecommunications Competition, Carrier Profile: Digital Teleport at 3 (9th ed. 1998).

[113] See New Paradigm Resources Group and Connecticut Research, 1998 CLEC Report: Annual Report on Local Telecommunications Competition, Carrier Profile: Intermedia at 8-9 (9th ed. 1998).

[114] See New Paradigm Resources Group and Connecticut Research, 1997 CLEC Report: Annual Report on Local Telecommunications Competition (8th ed. 1997); New Paradigm Resources Group and Connecticut Research, 1998 CLEC Report: Annual Report on Local Telecommunications Competition, (9th ed. 1998); Teleport Communications Group, TCG Facts (visited July 14, 1998) <http://www.tcg.com/tcg/ about TCG/TCGfacts.html>.

[115] See, e.g., AT&T Press Release, AT&T, TCI to Merge (Jun. 24, 1998), available at <http://www.att.com/press/980624.cha.html> (AT&T CEO Michael Armstrong said: "Today we are beginning to answer a big part of the question about how we will provide local service to U.S. consumers").

[116] See New Paradigm Resources Group and Connecticut Research, 1998 CLEC Report: Annual Report on Local Telecommunications Competition, Carrier Profile: MFS-WorldCom at 11 (9th ed. 1998).

[117] TCG operates a 412 route-mile network (16,750 fiber miles) with 76 buildings on-net. Opened in 1990, the network extends through Oak Brook, Rolling Meadows, Waukegan, Skokie, and Gary, Indiana. See New Paradigm Resources Group and Connecticut Research, 1998 CLEC Report: Annual Report on Local Telecommunications Competition, Carrier Profile: TCG at 10, 24 (9th ed. 1998).

[118] NEXTLINK launched its 40 route-mile Chicago network in February 1998. See NEXTLINK Press Release, NEXTLINK Communications Reports Strong Sales and Revenue Growth, Apr. 30, 1998; see also New Paradigm Resources Group and Connecticut Research, 1998 CLEC Report: Annual Report on Local Telecommunications Competition, Carrier Profile: NEXTLINK at 13 (9th ed. 1998).

[119] See Illinois Commerce Commission, Annual Report on Telecommunications 1997 (visted July 19, 1998) <http://icc.state.il.us/icc/Doclib/AR/013198_TEL.polf>.

construction in Chicago include Allegiance Telecom[120] and Metromedia Fiber Network.[121] Together, these networks account for some 648 route miles of fiber in that LATA. [122] See Map 25 at the "Maps" attachment. Chicago is another major cable market for TCI,[123] and is likely to be a major local exchange market for AT&T/TCG. [124]

As described in Section II.A, above, the merged SBC/Ameritech will become a significant new competitor in 30 of the largest local exchange markets throughout the country. Out-of-region, the merger's impact will be unambiguously pro-competitive: the merger will introduce a major new competitor into many of the largest local exchange markets in the country. And as described in more detail in Section V.C.5, below**,** the new SBC's strategy will spur local exchange competition and the development of new and

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[120] See New Paradigm Resources Group and Connecticut Research, 1998 CLEC Report: Annual Report on Local Telecommunications Competition, Carrier Profile: Allegiance at 3 (9th ed. 1998).

[121] Metromedia's planned network, which it expects to complete in the fall of this year, will include 50 route-miles of fiber (21,600 fiber miles). See id. at Carrier Profile: Metromedia at 8.

[122] See New Paradigm Resources Group and Connecticut Research, 1997 CLEC Report: Annual Report on Local Telecommunications Competition 449-450 (8th ed. 1997); New Paradigm Resources Group and Connecticut Research, 1998 CLEC Report: Annual Report on Local Telecommunications Competition, Carrier Profile: Metromedia at 24 (9th ed. 1998); TCG, TCG Facts (visited July 14, 1998), <http://www.tcg.com/tcg/about TCG/TCGfacts.html>.

[123] Following TCI's purchase of MediaOne's cable network in Chicago, TCI's Bill Fitzgerald declared that "The Chicago area is a strategically important market" for his company and that the acquisition had "further positioned [TCI] as a leading telecommunications provider in this region." Joseph Cahill, TCI Sets Its Sights on Chicago: Eyes MediaOne Deal, Crain News Service, Aug. 18, 1997, at 4.

[124] See, e.g., J. Cahill, AT&T Takes on Familiar Turf: Local Monopoly: It Eyes Up to 5 percent of Ameritech's Chicago Market, Crain's Chicago Business, Jan. 27, 1997; AT&T Leases Fiber Route From Jones Intercable for Chicago Suburbs Service, M2 Presswire, Aug. 27, 1996; AT&T Target Chicago as First Fiber Buildout, Fiber Optic News, Aug. 5, 1996.

improved services nationwide, in the new SBC's own region as much as elsewhere, as other major competitors like the other ILECs, AT&T/TCG/TCI, WorldCom/MCI/MFS/ Brooks/UUNet, and Sprint respond in kind. See Schmalensee/Taylor Aff. ¶¶ 7, 16; Carlton Aff. ¶ 10.

Within SBC's or Ameritech's regions, the merger will not in any way alter or diminish the ability of others to compete in local exchange markets. Neither competitors, state commissions nor this Commission will allow any backsliding in the market-opening process. SBC and Ameritech already face in-region competitors that are large, experienced, robust and ambitious. The main CLECs already have established customer bases within SBC's and Ameritech's regions. Nearly every local phone customer is already signed up with one or another of the long distance companies. Some 60 percent of those residential customers likewise have an established business relationship with a cable company. Millions more have established business relationships with wireless carriers unaffiliated with SBC or Ameritech.

The main CLECs also have powerful brand names that cut across all consumer segments. AT&T/TCG/TCI and MCI/WorldCom/MFS/Brooks/UUNet have assembled entities with strong reputations in the business and consumer ends of the market. Schmalensee/Taylor Aff. ¶¶ 48-54. Other CLECs are aggressively marketing their services through a variety of means. The major IXC-CLECs have far more extensive national marketing organizations than either SBC or Ameritech.[125] Though they tend to

[125] See, e.g., M. Roberts, Montgomery Securities, Bell Atlantic/NYNEX Merger: Another "Time To Go" Signal, Communications Services, Apr. 23, 1996 (noting that analysts agree that weak marketing skills are a key "strategic disadvantage" for RBOCs competing against interexchange carriers.).

have smaller advertising budgets, smaller CLECs focus intensely on fewer markets, aggressively targeting select customers in select areas.

SBC and Ameritech will not enjoy any supply-side differentiation from other entrants. Numerous carriers – AT&T/TCG/TCI, MCI/WorldCom/MFS/Brooks/UUNet, Sprint, and others – have extensive experience either directly in local telephony or in large-scale operation support systems; in any event, experience, know-how and systems themselves are available from independent suppliers. The wide availability of resale will make it easy to assemble copycat packages of any differentiated bundle that succeeds in the market. Technological differences in products offered through unbundled switching are likely to involve software or hardware features that are readily available from third-party vendors – hence, again, subject to easy imitation. Other competitors also have equal, if not greater, abilities to bundle a wide variety of services together. AT&T/TCG/TCI, for example, will have a unique ability to bundle facilities-based local, long distance, wireless, Internet and cable services together. The merger will position the new SBC to compete more effectively in this changing environment.

Finally, the merger will enhance the ability of the new SBC to provide competitive, innovative, new services and more effectively to market existing services to customers. In-region local customers will enjoy the benefits of the numerous synergies and efficiencies that the merger will effect, including each company's particular network, market research and product development expertise and cost savings derived from increased scale.

2. Wireless Services

In each of their cellular markets, SBC and Ameritech compete not only with the other cellular carriers but also with at least two PCS licensees and also one or more SMR providers, including Nextel, the nation's largest provider of such services.[126] This is consistent with the pattern of wireless competition created by the Commission's licensing policies. There are 117 different companies holding cellular and PCS licenses in areas where SBC controls wireless properties and 83 different wireless license holders in areas where Ameritech controls wireless properties. In both regions, the largest license holders are affiliated with interexchange carriers.[127] After the merger, the new company will still compete against AT&T in 107 service areas, against Sprint in 119 areas and against other companies like GTE, BellSouth, AirTouch, Omnipoint, PCS Primeco, Alltel/360°, U.S. Cellular, and many others. See Maps 30-37 at the "Maps" attachment.

Numerous other competitors have built nationwide wireless networks using spectrum bands other than those dedicated to cellular and PCS. WinStar's "Wireless Fiber" provides local, long distance, and Internet access services using the 38 GHz band.[128] WinStar's Chicago network has been operational since April 1997,[129] and the

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[126] In their PCS markets, of course, SBC and Ameritech face two cellular competitors in addition to other wireless carriers.

[127] AT&T holds 3 MTA and 65 BTA licenses in SBC's region and 5 MTA and 30 BTA licenses in Ameritech's, covering over 80 percent of the population in SBC's region, and nearly 100 percent in Ameritech's. Sprint's licenses cover the entire country. See Map 20 at the "Maps" attachment.

[128] See WinStar, The Business (visited July 20, 1998) <http://www.winstar.com/indexThe Buiss.htm>.

[129] See New Paradigm Resources Group and Connecticut Research, 1998 CLEC Report: Annual Report on Local Telecommunications Competition, Carrier Profile: WinStar at 8 (9th ed. 1998).

company expects to begin operating in St. Louis within a year.[130] Teligent plans to use low cost, microwave digital wireless technology to reach small- to medium-sized businesses in Chicago.[131] Nextel has built a nationwide wireless network using SMR spectrum; the company is operational in 6 states in SBC's region, and all 5 states in Ameritech's region. It is present in both Chicago and St. Louis. See Map 37 at the "Maps" attachment.

Joining SBC's and Ameritech's CMRS properties will improve the licensees' ability to offer the type of service that the Commission has endorsed and sought to promote – seamless, broad coverage. The Commission has recognized that the development of larger calling scopes is pro-competitive and provides consumer benefits.[132] In addition to a wider calling scope, the combined company will better be able to offer consumers consistency of advanced features that depend on the existence of an integrated, regional network that can be designed and operated to minimize costs and maximize efficiencies.[133]

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[130] See New Paradigm Resources Group and Connecticut Research, 1998 CLEC Report: Annual Report on Local Telecommunications Competition, Carrier Profile: WinStar at 9 (9th ed. 1998).

[131] See Conversation: Teligent Inc.'s Alex Mandl, Wash. Post, Feb. 2, 1998, at F10 (stating that Teligent is currently installing a DMS-500 in Chicago). See generally Teligent Press Release, Teligent Reports First Quarter Financial Results (May 12, 1998), available at <http://www.teligentinc.com/news/rdlb.html>.

[132] See, e.g., In re Bell Atlantic Mobile Systems, Inc. and NYNEX Mobile Communications Co., Order, 10 FCC Rcd. 13368, ¶ 48 (1995) (citing In re Application of Corpus Christi Cellular Telephone Co., Memorandum Opinion and Order, 3 FCC Rcd. 1889 (1988)).

[133] As discussed above, the merger will not reduce competition in any paging market.

3. Internet Services

The merger will stimulate increased competition in the national market for Internet services. Local phone companies provide much of the lower-speed Internet access over conventional, circuit-switched dial-up lines. Internet access is provided by almost 4,500 Internet service providers ("ISPs") in North America, including the major IXCs. The Internet's backbone networks are operated by some 29 national providers, including WorldCom/UUNet, MCI (whose Internet business is being sold to Cable & Wireless), GTE and Sprint, among others.[134] Regional Bells are not, of course, numbered among them.

In addition to these providers, cable operators are rapidly upgrading their networks to offer high-speed data services[135] and are already supplying high-speed cable modem service in a number of states in the SBC and Ameritech regions. See Schmalensee/Taylor Aff. ¶ 61; Table 13 at the "Tables" attachment. Over 11 million (10 percent) of all U.S. homes already have access to high-speed cable modem service. A number of new "data CLECs," as well as more established CLECs like AT&T/TCG/TCI

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[134] See Bill McCarthy, Directory of Internet Service Providers, Boardwatch Magazine, Winter 1998, at 5; J. Rickard, Measuring the Internet, Boardwatch Magazine Directory of Internet Service Providers, July/Aug. 1997, at 20.

[135] See generally Cable Datacom News, Commercial Cable Modem Launches in North America (visited July 20, 1998), <http://cabledatacomnews.com/cmic7.htm> (showing that more than 40 companies have deployed commercial cable modem services in over 50 cities). Microsoft has invested $1 billion in Comcast and over $200 million in Road Runner, a cable-based Internet access company. See A. Gould et al., Oppenheimer & Co. Inc., Media Stocks: Cable Stocks Reconsidered – Industry Report, Investext Rpt. No. 2562652, at *2 (Jul. 3, 1997) (stating "[t]he $1 billion Microsoft investment clearly points to the cable infrastructure as the preferred provider of high-speed data."); Microsoft Press Release, Microsoft Invests $1 Billion in Comcast (June 9, 1997), available at <http://www.microsoft.com/presspass/press/1997/jun97/ comcaspr.htm>; Microsoft, Compaq Get in on Road Runner, L.A. Times, June 16, 1998, at D18.

and Intermedia, are now providing competitive digital subscriber line services throughout the U.S. At least five such companies already provide such services in California: Covad, NorthPoint Communications, WorldCom/MCI/MFS/Brooks/ UUNet, Rhythms NetConnections, and ACI.[136] Several digital satellite networks are expected to be fully operational shortly, including Iridium (Fall 1998), GlobalStar (1999), Ellipso (2001), Astrolink (2001), Spaceway (2001) and Teledesic (2003); each of these networks plan to offer both voice and data services, and may provide Internet access.[137]

As described in Section II.A, above, the new SBC plans to deploy high-speed data networks and services as part of the National-Local Strategy. In addition, both Ameritech and SBC are now beginning to deploy these services within their respective regions. As discussed in Section II.E, above, the deployment of Internet and other high-speed data services requires a significant investment in new technology, and a large learning curve. The merger will spread development costs and risks across a broader base, sharply reducing unit costs and accelerating the delivery of new services to market.

SBC and Ameritech are tiny players in the market for Internet services today; holding less than 2% of the national market combined.[138] The only effect of this merger

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[136] See Petition of Southwestern Bell Telephone Company, Pacific Bell, and Nevada Bell for Relief from Regulation, CC Dkt. No. 98-91, at 15-17 (FCC filed Jun. 9, 1998).

[137] See Iridium LLC Reports Second Quarter Results, PR Newswire, July 14, 1998 at 18:12:00; J. Moran, Satellite Use Boom is Taking Communications to New Level, Star Tribune, June 21, 1998, at 7D; News Briefs, Mobile Satellite News, July 9, 1998; Ellipso, Inc. Meets Construction Milestone, PR Newswire, June 22, 1998 at 10:35:00; Lockheed Martin Touts Its Astrolink System, Communications Today, Sept. 19, 1997; Satellites Will Fill Global Skies, Asia-Pacific Telecommunications, Apr. 1, 1998 available in 1998 WL 10658895; J. Robertson, Telecom EOMs Battle Local Bells Over xDSL Data Right, Electronic Buyers' News, July 13, 1998, available at 1998 WL 13059021.

[138] Moreover, SBC and Ameritech do not provide Internet access service in overlapping areas.

will to be to create a company better able to compete in a critically important, rapidly growing market that is dominated by other companies.

4. Long Distance and International Service

The merger will help reduce concentration and promote competition in long distance and international markets alike. As the Commission has found, the interexchange market today is less than fully competitive, particularly in residential markets.[139] AT&T, WorldCom/MCI, and Sprint together earn over 80 percent of U.S. long distance revenues.[140] The market is still characterized by a considerable degree of consciously parallel pricing by the three major facilities-based carriers.

As described in Section II.A, above, the new SBC will add a significant measure of new competition to this market. The company will market long distance service along with local exchange, Internet access, and other services in 30 of the largest markets outside of its region. By capturing a credible share of domestic long distance traffic out-of-region, and in-region once Section 271 approvals are secured, the merged company can only add to competitive choices in this very large market.

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[139] See In re Application of Ameritech Michigan Pursuant to Section 271 of the Communications Act of 1934, as amended, to Provide In-Region, InterLATA Services In Michigan, Memorandum Opinion and Order, 12 FCC Rcd. 20543, ¶ 16 (1997) (noting that "not all segments of [the long distance] market appear to be subject to vigorous competition," and in particular, "the relative lack of competition among carriers to serve low volume long distance customers."). Chairman Kennard recently wrote to the CEOs of the three largest IXCs "regarding the growing body of evidence that suggests that the nation's largest long distance companies are raising rates when their costs of providing service are decreasing." Letters from Chairman Kennard to Michael C. Armstrong, Bert Roberts and William T. Esrey, February 26, 1998.

[140] FCC, Long Distance Market Shares: First Quarter 1998 table 3.2 (June 1998), available at <http://www.fcc.gov/Bureaus/Common_Carrier/Reports/FCC-State-Link/ixc.html#marketshares>.

The company is equally committed to compete in providing service on U.S.-international routes, which are often less competitive than the domestic long distance market. AT&T, MCI/WorldCom and Sprint account for nearly 82 percent of all U.S. international telecommunications revenue.[141] SBC and Ameritech possess complementary international strengths that will position the new SBC as one of a smaller number of global competitors. No other U.S. carrier has invested as much in foreign telecommunications carriers as the combined SBC/Ameritech. Moreover, as described in Section II.C, the new SBC plans to expand its international presence significantly, building facilities in 14 foreign cities to serve large national and international business customers. For U.S.-based companies, this should lead to lower international termination rates and lower costs in conducting international business operations.

5. Global Seamless Services for Large Business Customers

The merger of SBC and Ameritech will also provide substantial benefits by creating a strong new competitor offering sophisticated, integrated telecommunications services to large global customers. As the Commission has repeatedly noted in recent years, large national and transnational business customers occupy a discrete market of their own. This product market, the Commission has concluded, is for "Global Seamless Services" and is "of worldwide geographic scope."[142] This market is populated by the most

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[141] See FCC, Long Distance Market Shares: First Quarter 1998 table 5.1 (June 1998), available at <http://www.fcc.gov/Bureaus/Common_Carrier/Reports/FCC-State-Link/ixc.html#marketshares>.

[142] See In re Request of MCI Communications Corp. and British Telecomm. plc, Declaratory Ruling and Order, 9 FCC Rcd. 3960 (1994) ("BT/MCI I"); In re the Merger of MCI Communications Corp. and British Telecomm. plc, Memorandum Opinion and Order, 12 FCC Rcd. 15351 (1997) ("BT/MCI II").

demanding customers – customers with the most far-flung locations to connect and with the most sophisticated demands for advanced services. It is competition in this critical market that will ultimately propel and define competition in more familiar markets, such as the markets for local and long distance service to residential and small business customers.

The new SBC will rank among the few enterprises with the resources, scale and international presence to compete on a truly global scale. The company will have the economies of scope and scale essential to permit it to develop integrated services and market them worldwide, at competitive prices. It will also have a large base of employees with the technical skills needed to build local exchange businesses from the ground up, and the financial strength and reputation for reliability it will need to compete effectively in this market. Just as the merger will permit the new SBC to follow its customers wherever they have domestic telecommunications needs, the same will be true for customers with transnational requirements.

The global seamless services market is necessarily limited to "only a handful of major competitors world-wide," the Commission found, because "[c]ompetition in these markets requires significant resources, which must extend throughout the world."[143] Indeed, even two of the largest telecommunications companies in the U.S. – MCI and Sprint – had to find equally large international partners in order to be able to enter this market. The Commission approved British Telecom's investment in MCI, and Deutsche Telekom's and France Telecom's investment in Sprint, on the grounds, inter alia, that

[143] BT/MCI II at ¶¶ 91, 130.

each of these alliances would add an additional player into the global seamless services market.[144]

As one of the few competitors that will be capable of serving the large-customer market, the new SBC will certainly increase competition in this market.[145] As described above, only a small number of competitors presently are serving this market, each of which is being assisted by one or more foreign partners. Moreover, the ability of U.S. firms to compete in this market is quite limited due to the need to have an extremely broad geographic presence.

More importantly, however, it is by unleashing a new round of competition at the top end of the market that the SBC/Ameritech merger will propel competition throughout local exchange markets generally. That is SBC/Ameritech's own business strategy – to offer voice, long distance and data services to the largest business customers, and to use the infrastructure deployed to serve smaller businesses and residential customers. Kahan Aff. ¶ 41. As described in Section II.A, above the new SBC intends to offer packages of local, long distance, data and other telecommunications services in 30 new markets.[146]

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[144] See BT/MCI I at ¶ 51 (as "arguably . . . first entrant" into the global seamless service market, new BT/MCI alliance will have a "procompetitive effect".); In re Sprint Corporation, Declaratory Ruling and Order, 11 FCC Rcd. 1850, ¶¶ 84, 86 (1996) (The Joint Venture between Sprint, FT and DT will "have a procompetitive effect" as it will "add another significant competitor to this market."), modified, 12 FCC Rcd. 8430 (1997).

[145] Cf. id. ¶ 87 ("The establishment of a new, viable competitor in [the global seamless services market] should result in more competitive options for U.S. customers, particularly in terms of pricing and variety of services available for large scale, high-end customers such as multinational corporations.").

[146] As the Commission has found, bundled service packages can "have clear advantages for the public," such as greater convenience and the ability to secure volume discounts by aggregating purchases of different services. See In re Applications of Craig O. McCaw and American Tel. and Tel. Co., 9 FCC Rcd. 5836, ¶¶ 73-75 (1994), aff'd sub nom SBC Communications Inc. v. FCC, 56 F.3d 1484 (D.C. Cir. 1995), recon. in part, 10 FCC Rcd.

Actual and potential competitors for the business of large business customers will have to make competitive responses. Markets throughout SBC's region, and the rest of the U.S, will ride this wave of new competitive entry by the nation's largest carriers. This will spur further competition by the niche players, and in due course unleash incumbent local phone companies to compete in-region in long distance voice and data markets as well.

6. Video Services

The Commission has defined video markets as "local markets in which consumers can choose among particular multichannel or other video programming distribution services."[147] Some 87 percent of those subscribing to multi-channel video systems are served by traditional cable companies.[148] In its most recent Annual Assessment, the Commission concluded that the main form of competition to incumbent cable operators today is coming from wireless alternatives like DBS, LMDS and MMDS, not wireline cable overbuilders. With over 5 million subscribers, DBS is "the most significant alternative to cable television,"[149] and today more people are signing up for DBS than for cable.[150] An additional 2 million customers use home satellite dishes.[151] SMATV

11,786 (1995) ("AT&T/McCaw"); see also 142 Cong. Rec. S713 (daily ed. Feb. 1, 1996) (statement of Sen. Harkin) (joint marketing allows "low cost integrated service, with the convenience of having only one vendor and one bill to deal with"); S. Rep. No. 104-23, at 43 (joint offerings constitute a "significant competitive marketing tool").

147 See In Re Annual Assessment of the Status of Competition in Markets for the Delivery of Video Programming, Fourth Annual Report, 13 FCC Rcd. 1034, ¶ 11 (1998).

148 See id.

149 See id.

150 See D.H. Leibowitz et al., Donaldson, Lufkin & Jenrette Securities, Direct Broadcast Satellite (DBS) Industry - Industry Report, Investext Rpt. No. 2601562, at *2 (Nov. 21, 1997).

systems offer a further competitive alternative for the 25 to 30 percent of the U.S. population that lives in multiple dwelling units.[152] Other terrestrial wireless cable providers offer further competitive options.[153] And the high-speed Internet data networks discussed in Section IV.C.3, above, will soon be video capable, at which point the video and Internet markets should converge.

This merger will not adversely affect competition in the market for multichannel video programming distribution. For the present, the main competitive alternatives to cable are wireless ones, with the exception of SNET's and Ameritech's overbuilds, and the Commission has taken the necessary steps to issue the licenses and promote competition in that segment of the market. With respect to Ameritech's overbuild systems within its region, this merger would simply replace SBC for Ameritech as the party with ultimate control over those competitive systems.

7. Alarm Monitoring

Markets for alarm monitoring services are regional in scope, often comprising several metropolitan areas or states. Major alarm monitoring providers like ADT, Borg Warner and Ameritech use centralized operations centers to provide service. Some

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[151] See Annual Assessment of the Status of Competition in Markets for the Delivery of Video Programming, Fourth Annual Report, 13 FCC Rcd. 1034, ¶ 11 (1998).

[152] See D.H. Leibowitz et al., Donaldson, Lufkin & Jenrette Securities, Direct Broadcast Satellite (DBS) Industry - Industry Report, Investext Rpt. No. 2601562, at *2 (Nov. 21, 1997).

[153] See Annual Assessment of the Status of Competition in Markets for the Delivery of Video Programming, Fourth Annual Report, 13 FCC Rcd. 1034, ¶11 (1998).

11,500 local regional and national companies provide alarm monitoring services.[154] The largest player, ADT, has less than an 8 percent market share; the top 10 firms serve just 18 percent of the market.[155]

SBC currently does not participate in alarm monitoring and, if this merger is approved, Ameritech will simply continue its alarm monitoring business. The merger should have little if any impact on this market, and can have no possible adverse effect.

D. CONCLUSION: The Merger Will Advance the Policies of the Communications Act and Provide Substantial Net Benefits to Competition and the Public Interest

The merger of SBC and Ameritech, more than any transaction in recent memory, will advance the policies of the Communications Act. The National-Local/Global Strategy enabled by the merger will inject new competition into scores of domestic and international markets. This will stimulate a new era of competitive telecommunications and dismantle any remaining impediments to competition. The merger will also enhance the international competitiveness of the U.S. telecommunications industry. In addition, it will enhance the merged company's efficiency and facilitate the delivery of new and upgraded services to consumers.

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[154] See B.K. Langenberg, Credit Suisse First Boston, Tyco International Company Report, Investext Rpt. No. 2601367 (Nov. 17, 1997).

[155] See The 1998 SDM 100, Security Distributing and Marketing (SDM) Magazine, (visited July 16, 1998) <http://www.sdmmag.com/list.htm>; Insider Report, Security Distributing and Marketing (SDM) Magazine (visited July 20, 1998) <http:www.sdmmag.com/98stats.htm>.

There is no doubt that each of these results of the merger is a substantial benefit to the public interest. Any ultimate reckoning of net benefits would find the merger overwhelmingly in the public interest.

V. RELATED GOVERNMENTAL FILINGS

In addition to the filings with the Commission, SBC and Ameritech are taking steps to satisfy the requirements of other governmental entities with respect to the merger.

First, the Department of Justice will conduct its own review of the competitive aspects of this transaction pursuant to the Hart-Scott-Rodino Antitrust Improvements Act of 1976, 15 U.S.C. § 18A, and the rules promulgated under that Act. On July 20, 1998, SBC and Ameritech each submitted to the Department of Justice and the Federal Trade Commission a pre-merger notification form and an associated documentary appendix.

Second, the Illinois Commerce Commission and the Public Utility Commission of Ohio will review the merger under the laws of those states, and filings will be made shortly.

Third, the approval of certain state public utilities commissions may be required in connection with Ameritech's authorizations to provide intrastate interexchange service in 45 states and local exchange service in eight out-of-region states. SBC and Ameritech also may need to surrender certain authorizations as required by state and federal law.

Fourth, the local franchising authorities in the majority of jurisdictions in which Ameritech has received franchises for competitive cable systems will review the transfer of control effected by this merger.

Finally, SBC and Ameritech will make certain notifications to or filings with regulatory authorities in one or more European countries in which SBC or Ameritech holds direct or indirect investments in telecommunications companies.

The Applicants fully expect that these reviews by the Department of Justice, the Illinois and Ohio Commissions and other governmental entities will confirm that the merger of SBC and Ameritech is not anticompetitive and is in the public interest.

VI. ADDITIONAL AUTHORIZATIONS

In addition to seeking the Commission's approval of the transfers of control of the FCC authorizations covered in these applications, the Applicants are also requesting the additional authorizations described below, and they are simultaneously filing an application for a declaration by the Commission, under Section 212 of the Communications Act and Part 62 of the Commission's Rules, that, upon consummation of the merger, all of SBC's post-merger carrier subsidiaries (including SWBT, Pacific Bell, Nevada Bell, Illinois Bell Telephone Company, Indiana Bell Telephone Company, Inc., Michigan Bell Telephone Company, The Ohio Bell Telephone Company and Wisconsin Bell, Inc.) will be "commonly owned carriers." The Applicants are also simultaneously filing applications to transfer control to SBC of certain Section 214 authorizations controlled by Ameritech.

A. After-Acquired Authorizations

As set forth in the relevant exhibit to each of these transfer of control applications, Ameritech controls entities which hold a number of FCC authorizations, all of which would be affected by this proposed transaction. While the applications for approval of

the transfer of ultimate control of these authorizations are intended to be complete, the licensees involved in this proposed transaction may have on file, and may file for, additional authorizations for new or modified facilities, some of which may be granted during the pendency of these transfer of control applications.

Accordingly, the Applicants request that the grant of the transfer of control applications include authority for SBC to acquire control of:

(1) any authorization issued to Ameritech's subsidiaries and affiliates during the Commission's consideration of the transfer of control applications and the period required for consummation of the transaction following approval;

(2) construction permits held by such licensees that mature into licenses after closing and that may not have been included in the transfer of control applications; and

(3) applications that will have been filed by such licensees and that are pending at the time of consummation of the proposed transfer of control.

Such action would be consistent with prior decisions of the Commission.[156]

B. Blanket Exemptions to Cut-Off Rules

Pursuant to Sections 22.123(a), 24.423(g)(3), 24.823(g)(3), 25.116(b)(3), 90.164(b) and 101.29(c)(4) of the Commission's Rules, the Applicants request a blanket exemption from any applicable cut-off rules in cases where Ameritech's subsidiaries or

[156] See, e.g., SBC/Telesis, 12 FCC Rcd. 2624 at ¶ 93; In re Applications of Craig O. McCaw and American Tel. & Tel., 9 FCC Rcd. 5836, ¶ 137 n.300 (1994), aff'd sub nom. SBC Communications Inc. v. FCC, 56 F.3d 1484 (D.C. Cir. 1995), recon. in part, 10 FCC Rcd. 11786 (1995) ("AT&T/McCaw").

affiliates file amendments to pending Part 22, Part 24, Part 25, Part 90 and Part 101 or other applications to reflect the consummation of the proposed transfer of control. The exemption is requested so that amendments to pending applications to report the change in ownership would not be treated as major amendments requiring a second public notice period. The scope of the transaction between SBC and Ameritech demonstrates that any ownership changes are not made for the acquisition of any particular pending application, but are part of a larger merger undertaken for legitimate business purposes. The grant of such an exemption would be consistent with previous Commission decisions routinely granting a blanket exemption in cases involving large transactions.[157]

C. Unconstructed Systems/Antitrafficking Rules

The overwhelming majority of the FCC authorizations that are the subject of the proposed transfer of control applications consist of constructed facilities. However, certain facilities in the point-to-point microwave service are authorized but not yet constructed. Under Section 101.55(d) of the Commission's Rules, the transfer of control of such facilities does not implicate the Commission's antitrafficking restrictions because the transfer of these unconstructed facilities is incidental to the larger transaction involving the transfer of control of an ongoing, operating business.[158] Pursuant to

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[157] See, e.g., In re Applications of PacifiCorp Holdings, Inc. and Century Tel. Enterprises, Inc., 13 FCC Rcd. 8891, ¶ 45 (1997); SBC/Telesis, 12 FCC Rcd. 2624 at ¶ 91; AT&T/McCaw, 9 FCC Rcd. 5836 ¶ 137; In re Applications of Centel Corp. and Sprint Corp. and FW Sub. Inc., 8 FCC Rcd. 1829, ¶ 23, review denied, 8 FCC Rcd. 6162 (1993).

[158] In addition, Ameritech holds authorizations for unconstructed cellular and PCS facilities; however, no restrictions exist against transferring control of these authorizations. The cellular authorizations are not unserved area systems and were not initially obtained by Ameritech through a comparative renewal proceeding. See 47 C.F.R. § 22.943(b)-(c) (1997). Likewise, Ameritech did not receive the PCS

Sections 1.2111(a), 24.439(a), 24.839(a) and 101.55(d), this Exhibit and the Plan demonstrate that the proposed transaction is a stock-for-stock exchange based upon the valuation of Ameritech as a whole. No separate payments are being made with respect to any individual FCC authorizations or individual facilities.[159]

VII. CONCLUSION

For the foregoing reasons, the Commission should conclude that the merger of SBC and Ameritech serves the public interest, convenience and necessity and should grant the applications to transfer control of Ameritech's FCC authorizations to SBC

authorizations through the use of set-asides, installment financing, bidding credits or bidding preferences. Thus, there are no restrictions on their transfer pursuant to 47 C.F.R. §§ 1.2111, 24.439, 24.839 (1997).

[159] See, e.g., SBC/Telesis, 12 FCC Rcd. 2624 at ¶ 91.